

China Advanced Construction Materials Group, Inc
Form 10-K
September 28, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended **June 30, 2017**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number **001-34515**

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other Jurisdiction of Incorporation or Organization)

20-8468508

(I.R.S. Employer Identification No.)

9 North West Fourth Ring Road Yingu Mansion Suite 1708

Haidian District Beijing, People's Republic of China 100190

(Address of Principal Executive Office and Zip Code)

Registrant's telephone number, including area code: **+86 10 82525361**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Common Stock, Par Value \$0.001

Name of Each Exchange On Which Registered

NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: **None.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Edgar Filing: China Advanced Construction Materials Group, Inc - Form 10-K

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Edgar Filing: China Advanced Construction Materials Group, Inc - Form 10-K

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

At December 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, there were 2,387,658 shares of the registrant's common stock outstanding, and the aggregate market value of such shares held by non-affiliates of the registrant (based upon the closing price of such shares as reported on the NASDAQ Capital Market) was approximately \$3.4 million. Shares of the registrant's common stock held by the registrant's executive officers and directors have been excluded because such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of September 26, 2017, there were 2,387,658 shares of the Registrant's common stock outstanding.

TABLE OF CONTENTS

	Page
Part I	
<u>Item 1. Business</u>	<u>6</u>
<u>Item 1A. Risk Factors</u>	<u>17</u>
<u>Item 2. Properties</u>	<u>30</u>
<u>Item 3. Legal Proceedings</u>	<u>30</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>30</u>
Part II	
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>31</u>
<u>Item 6. Selected Financial Data</u>	<u>31</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>31</u>
<u>Item 7A. Quantitative and Qualitative Disclosure of Market Risk</u>	<u>40</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>40</u>
<u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>40</u>
<u>Item 9A. Controls and Procedures</u>	<u>40</u>
<u>Item 9B. Other Information</u>	<u>41</u>
Part III	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>41</u>
<u>Item 11. Executive Compensation</u>	<u>44</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>47</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>48</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>49</u>
<u>Item 15. Exhibits, Financial Statements and Schedules</u>	<u>50</u>

INTRODUCTORY NOTE

In this report, unless indicated otherwise, references to

China, Chinese and PRC, are references to the People's Republic of China;

BVI refers to the British Virgin Islands;

China Advanced, China-ACM, the Company, we, us, or our, are references to the combined business of China Advanced Construction Materials, Group, Inc. and its wholly-owned subsidiaries, BVI-ACM and China-ACMH, as well as Xin Ao and its wholly owned subsidiaries in China, including Heng Yuan Zhengke, Hong Sheng An, Heng Tai, Da Tong, and Luan Xian HengXin, but do not include the stockholders of China Advanced;

BVI-ACM refers to Xin Ao Construction Materials, Inc;

China-ACMH refers to Beijing Ao Hang Construction Materials Technology Co., Ltd.;

Xin Ao refers to Beijing Xin Ao Concrete Group;

Heng Yuan ZhengKe refers to Beijing Heng Yuan ZhengKe Technical Consulting Co., Ltd;

Hong Sheng An refers to Beijing Hong Sheng An Construction Materials Co., Ltd;

Heng Tai refers to Beijing Heng Tai Hong Sheng Construction Materials Co., Ltd;

Da Tong refers to Da Tong Ao Hang Wei Ye Machinery and Equipment Rental Co., Ltd;

Luan Xian HengXin refers to Luan Xian HengXin Technology Co., Ltd;

RMB refers to the Renminbi, the legal currency of China; and

U.S. dollars, dollars and \$ are references to the legal currency of the United States.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. You can identify such forward-looking statements by terms such as anticipates, believes, could, estimates, expects, intends, may, plans, potential, prediction, would and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. These forward-looking statements include, among other things, statements relating to:

- our expectations regarding the market for our concrete products and services;
- our expectations regarding the continued growth of the concrete industry;
- our beliefs regarding the competitiveness of our products;
- our expectations regarding the expansion of our manufacturing capacity;
- our expectations with respect to increased revenue growth and our ability to maintain profitability resulting from increases in our production volumes;
- our future business development, results of operations and financial condition;
- competition from other manufacturers of concrete products;
- the loss of any member of our management team;
- our ability to integrate acquired subsidiaries and operations into existing operations;
- market conditions affecting our equity capital;
- our ability to successfully implement our selective acquisition strategy;
- changes in general economic conditions; and
- changes in accounting rules or the application of such rules.

Also, forward-looking statements represent our estimates and assumptions only as of the date of this report. You should read this report and the documents that we reference in this report, or that we filed as exhibits to this report, in their entirety and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

PART I

Item 1. Business

OUR BUSINESS

Overview

The Company is a holding company whose primary business operations are conducted through our wholly-owned subsidiaries BVI-ACM and China-ACMH, and our variable interest entities, Xin Ao and its subsidiaries. The Company engages in the production of advanced construction materials for large scale infrastructure, commercial and residential developments. The Company is primarily focused on engineering, producing, servicing, delivering and pumping a comprehensive range of advanced ready-mix concrete materials for highly technical, large scale, and environmentally-friendly construction projects. Ready-mixed concrete products are important building materials that are used in a vast majority of commercial, residential and public works construction projects. We are committed to conducting our operations with an emphasis on the extensive use of recycled waste materials, extending product life, the efficient production of our concrete materials with minimal energy usage, dust and air pollution, and innovative products, methods and practices.

Our Corporate Structure

We own all of the issued and outstanding capital stock of Xin Ao Construction Materials, Inc., or BVI-ACM, a British Virgin Islands corporation, which in turn owns 100% of the outstanding capital stock of Beijing Ao Hang Construction Materials Technology Co., Ltd., or China-ACMH, a company incorporated under the laws of China. On November 28, 2007, China-ACMH entered into a series of contractual agreements with Beijing Xin Ao Concrete Group Co., Ltd., or Xin Ao, a company incorporated under the laws of China, and its two shareholders, in which China-ACMH effectively took over management of the business activities of Xin Ao and has the right to appoint all executives and senior management and the members of the board of directors of Xin Ao. The contractual arrangements are comprised of a series of agreements, including an Exclusive Technical Consulting and Services Agreement and an Operating Agreement, through which China-ACMH has the right to advise, consult, manage and operate Xin Ao for an annual fee in the amount of Xin Ao's yearly net profits after tax. Additionally, Xin Ao's shareholders have pledged their rights, titles and equity interest in Xin Ao as security for China-ACMH to collect technical consulting and services fees provided to China-ACMH through an Equity Pledge Agreement. In order to further reinforce China-ACMH's rights to control and operate Xin Ao, Xin Ao's shareholders have granted China-ACMH the exclusive right and option to acquire all of their equity interests in Xin Ao through an Option Agreement.

The following chart reflects our organizational structure as of the date of this report:

Our Corporate History

China Advanced Construction Materials Group, Inc. was founded as an unincorporated business on September 1, 2005, under the name TJS Wood Flooring, Inc., and became a C corporation in the State of Delaware on February 15, 2007. On April 29, 2008, we changed our name to China Advanced Construction Materials Group, Inc. in response to a reverse acquisition transaction with BVI-ACM described below.

On April 29, 2008, we completed a reverse acquisition transaction with BVI-ACM whereby we issued to the stockholders of BVI-ACM 8,809,583 shares of our common stock in exchange for all of the issued and outstanding capital stock of BVI-ACM. BVI-ACM thereby became our wholly owned subsidiary and the former stockholders of BVI-ACM became our controlling stockholders.

On August 1, 2013, we consummated a reincorporation merger pursuant to which we merged with and into our wholly-owned subsidiary, China Advanced Construction Materials Group, Inc., a newly formed Nevada corporation and the surviving entity in the merger, pursuant to the terms and conditions of an Agreement and Plan of Merger entered into as of August 1, 2013. As a result of the reincorporation the Company is now governed by the laws of the state of Nevada.

Background and History of BVI-ACM and China-ACMH

BVI-ACM was established on October 9, 2007, under the laws of British Virgin Islands. The majority shareholders of BVI-ACM are Chinese citizens who own 100% of Xin Ao, a limited liability company formed under laws of China. BVI-ACM was established as a special purpose vehicle for foreign fund raising for Xin Ao. China State Administration of Foreign Exchange, or SAFE, requires the owners of any Chinese companies to obtain SAFE's approval before establishing any offshore holding company structure for foreign financing as well as subsequent acquisition matters. On September 29, 2007, BVI-ACM was approved by local Chinese SAFE as a special purpose vehicle offshore company.

On November 23, 2007, BVI-ACM established a subsidiary, China-ACMH, in China as a wholly owned foreign limited liability company with registered capital of \$5 million. Through China-ACMH and its variable interest entity Xin Ao, we are engaged in producing general ready-mixed concrete, customized mechanical refining concrete, and some other concrete-related products which are mainly sold in China. On September 20, 2010, China ACM established a 100% owned subsidiary, Advanced Investment Holdings Co., Inc., or AIH, in the State of Nevada. AIH never engaged in operations and the Company subsequently dissolved AIH on August 30, 2011.

In March and April 2010, Xin Ao established five 100% owned subsidiaries in China: Beijing Heng Yuan ZhengKe Technical Consulting Co., Ltd (Heng Yuan ZhengKe), Beijing Hong Sheng An Construction Materials Co., Ltd (Hong Sheng An), Beijing Heng Tai Hong Sheng Construction Materials Co., Ltd (Heng Tai), Da Tong Ao Hang Wei Ye Machinery and Equipment Rental Co., Ltd (Da Tong) and Luan Xian HengXin Technology Co., Ltd (Luan Xian HengXin). Total registered capital for these five subsidiaries was approximately \$2.1 million (RMB 14 million) and none of these Xin Ao subsidiaries had actual operation. The Company decided to dissolve these entities between March 2016 and June 2016. As of June 30, 2017, all of these entities have been dissolved.

Our Business

Our concrete sales business is comprised of the formulation, production and delivery of the Company's line of C10-C100 concrete mixtures primarily through our current fixed plant, a ready mix concrete batching plant in Beijing. The ready-mixed concrete sales business engages principally in the formulation, preparation and delivery of ready-mixed concrete to the worksites of our customers. For this segment of our business, we procure raw materials, mix them according to our measured mixing formula, ship the final products in mounted transit mixers to the destination work site, and, for more sophisticated structures, pump the mixture and set it into structural frame molds as per structural design parameters. The process of delivering and setting the ready mix concrete mixture cannot exceed 90 minutes because the chemistry of concrete mixture hardens thereafter. The deliverable radius of a concrete mixture from our ready mix plant in Beijing is approximately 25 kilometers. Traffic conditions would affect the timing and shipment of our concrete mixtures. Since the 2008 Olympics, there are alternating license plate traffic restrictions on many traffic routes in Beijing to ease traffic congestion and associated exhaust pollution. Due to the large amounts of working capital required for the acquisition of raw materials associated for this business segment, a supply shortage or degradation of supplier accounts payable credit terms would pose a potential risk to our business.

Our principal market, Beijing, has enjoyed stronger economic growth and a higher demand for construction than other regions of China. As a result, we believe that competitors will try to expand their sales and build up their distribution networks in our principal market. We anticipate that this trend will continue and likely accelerate. Increased competition may have a material adverse effect on our financial condition and operation results.

Our Industry

Our Industry was influenced by the decline in the macro economy in recent periods. The concrete products industry experienced a slowdown in industry production and economic growth since September 2011. In 2014, the slowdown in the industry became more obvious month by month, with profit generally being squeezed by the greater pressure to maintain stable level of production and operation.

China's average annual GDP growth remained approximately 10% over the past 31 years. China has become the world's second largest economy, both in nominal GDP and Purchasing Power Parity terms, after the United States. In line with this macroeconomic growth, the Chinese construction and building material industry has grown tremendously.

China is already among the world's largest construction materials producers, ranking first in the world's annual output of cement, flat glass, building ceramic and ceramic sanitary ware. The construction materials market includes all manufacturers of sand, gravel, aggregates, cement, concrete and bricks. The market does not include other finished or

semi-finished building materials.

Construction Demand in China

According to the Summary of Construction Outlook in China (the Summary), published in August 6, 2013 by the Freedonia Group, an industry research firm, construction expenditures in China are expected to increase 8.5 percent per year in real terms through 2017. Ongoing urbanization and industrialization, rising income levels, further population and household growth, and the government's continuing efforts to expand and upgrade physical infrastructure in the country will support healthy growth in construction spending.

Construction expenditures in China are nearly equally split among residential buildings, nonresidential buildings, and nonbuilding structures. Nonbuilding construction will experience the fastest growth (in real terms) through 2017. The increases will benefit from stated efforts to expand and upgrade the country's transportation infrastructure, such as highways network, subway systems in major cities, and several airports. Utilities construction will also contribute to the expenditures on nonbuilding construction, particularly in rapidly growing urban areas, as the government continues to expand and improve access to such infrastructure like water supply, sewage treatment, rubbish disposal, and gas distribution. Further efforts to increase the country's power generation capacity and improve electricity transmission networks will also drive spending on nonbuilding construction.

China's Cement & Concrete Demand

Demand for cement in China will be driven by rising, but decelerating, construction expenditures in China. Further advances in cement manufacturing technology are also expected to stimulate sales by improving the quality of the product, stressing the versatility of certain types of cement with excellent performance and/or price benefits over other types of cement across a range of construction applications. Regional cement markets reflect differences in construction expenditures, which in turn are driven by local trends in demographics, industrial output and economic activity. The cement markets in Northwest and Southwest China are expected to grow at a faster pace, as a result of the government's Great Western Development strategy, which aims to promote investment in these areas. Consumption of cement in Central and Northern China is also expected to exceed the national average, supported by high levels of transportation infrastructure construction and booming urban markets in Beijing and Tianjin. (Summary of the Freedonia Group's January 2009 "Cement in China" report from Business Wire).

Residential and non-residential buildings in China are increasingly requiring much more concrete due to, among other reasons, the short supply of wood. China is currently the largest consumption market of cement worldwide at over \$200 billion annually. At the present rate, it is presumed that China will continue to be an important player in the global construction materials market for at least the next two decades.

Demand for Ready-Mixed Concrete

Construction contractors are expected to continuously represent the largest market for cement. Economic downturns or reductions in government funding of infrastructure projects could significantly reduce our revenues. However, we believe that the ready-mix concrete market exhibits the strongest growth in the cement industry. Revenues are expected to be received from government regulations banning on-site concrete and mortar mixing. Demand for cement used in concrete products is expected to be driven by the increasing popularity of precast concrete with many construction contractors. In addition, the phase-out of clay bricks will heighten demand for concrete blocks. Recognizing the significant environmental impact created from the large-scale construction activities undertaken in the past few decades, China's government implemented Decree #341 in 2004 which bans onsite concrete production in over 200 major cities across China in order to reduce environmental damage from onsite cement mixing and improve the quality of concrete used in construction.

Our Competitive Strengths

Ready-mixed concrete is a highly versatile construction material that results from combining coarse and fine aggregates, such as gravel, crushed stone and sand, with water, various chemical admixtures and cement. We manufacture ready-mixed concrete in variations, which in each instance may reflect a specific design use. We generally maintain inventory of raw materials for a short period of time to coordinate our daily materials purchases with the time-sensitive delivery requirements of our customers.

The quality of ready-mixed concrete is time-sensitive as it becomes difficult to place within hours after mixing. Consequently, the market for a permanently installed ready-mixed concrete plant is usually limited to an area within certain radius of such plant's location. We produce ready-mixed concrete in batches at our plant and use mixer and other trucks to complete the production process, then distribute and deliver the concrete to the worksites of our customers.

Concrete has many attributes that make it a highly versatile construction material. In recent years, industry participants have developed various uses for concrete products.

We generally obtain contracts through local sales and marketing efforts directed at concrete subcontractors, general contractors, property owners and developers, governmental agencies and home builders.

Our competitors includes a number of state-owned and large private PRC-based manufacturers and distributors that produce and sell products similar to ours. We compete primarily on the basis of quality, technological innovation and price. Essentially all contracts on which we bid are awarded through a competitive bid process with awards often made to the lowest bidder, though other factors such as shorter completion time or prior experiences are often just as important. Within our markets, we compete with many national, regional and local state-owned and private construction corporations, some of which have achieved greater market penetration or have greater financial and other resources than us. In addition, there are a number of large national companies in our industry that could potentially enter into our markets and compete with us. If we are unable to compete successfully in our markets, our relative market share and profits would be reduced.

We believe that the following competitive strengths enable us to compete effectively and to capitalize on the remaining market for construction materials in China:

Large Scale Contractor Relationships. We have contracts with major construction contractors which are constructing key infrastructure, commercial and residential projects. Our sales efforts focus on large-scale projects and large customers which place large recurring orders and raise less credit risk to us. For the year ended June 30, 2017, five customers accounted for approximately 40% of the Company's sales and 28% of the Company's account receivables as of June 30, 2017. Should we lose these customers in the future and are unable to obtain additional customers, our revenues will suffer.

Experienced Management. The technical knowledge and business relationships of our management give us the ability to secure major infrastructure projects, increase production volumes, and implement quality standards and environmentally sensitive policies, and it also provide us with leverage to acquire less sophisticated operators. If there is any significant turnover in our management, we would lose the institutional knowledge held by our existing senior management team.

Innovation Efforts. We strive to produce the most technically and scientifically advanced products for our customers hence we maintain close relationships with Tsinghua University, Xi'an University of Architecture and Technology and Beijing Dongfang Jianyu Institute of Concrete Science & Technology, which assist us with our research and development activities. During our five year agreement with the Institute, we obtain an advantageous status over many of our competitors by gaining access to a wide array of resources and knowledge. The Company incurred research & development expenses of approximately \$0.8 million and \$0.7 million for the years ended June 30, 2017 and 2016, respectively.

Our Growth Strategy

We are committed to enhancing profitability and cash flows through the following strategies:

Focusing on High Capacity Utilization. We intend to focus on achieving high capacity utilization in order to efficiently operate our plant, by increasing capacity utilization at existing plant or expanding capacity by building new plants to meet existing contracts and anticipated increase in demand. We were focused on our capacity utilization at our Beijing-based concrete plant in fiscal year 2016 and 2017. As a result, we terminated our leased station based on slowing demand for railway construction and the suspension of new and ongoing high speed railway projects stemming from a changing policy announced by China's Ministry of Rail and national development and reform commission.

Mergers and Acquisitions. When capital permits, we intend to capitalize on the challenges that smaller companies are encountering in our industry by acquiring complementary companies at favorable prices. We believe that buying rather than building capacity is an option that may be attractive to us if replacement costs are higher than purchase prices. We continue to look into acquiring smaller concrete manufacturers in China as part of our expansion plans. We have not identified specified targets or entered into any Letters-of-Intent at this time.

Vertical Integration. When capital permits, we plan to acquire smaller companies within the construction industry, develop more material recycling centers, and hire additional highly qualified employees. In order to accomplish this, we may need to offer additional equity or debt securities. Certain companies we seek to acquire are suppliers of the raw materials we purchase to manufacture our products. If we do acquire such companies we will have greater control over our raw material costs.

Supply Chain Efficiencies and Scale. We intend to streamline our supply chain process and leverage our scale.

New Product Offering. We plan to produce a lightweight aggregate concrete for use in projects and to expand product offerings to include pre-cast concrete.

Our Operations

We provide materials through our ready-mixed concrete plant in Beijing. We own one concrete plant and its related equipment.

Products

As architectural designs become more complex, challenging, and modern in scope, the need for technology driven companies to provide high-end specialty concrete mixtures has rapidly accelerated. Increasing demand for state-of-the-art cement mixtures has spurred our technological innovation and our ability to provide advanced mixtures of building materials that meet project specific engineering and environmental specifications. We produce a range of C10 to C100 concrete materials and specialize in an array of specialized ready-mixed concretes tailored to each project's technical specifications and environmental standards.

We specialize in ready-mixed concrete, a concrete mixture made at our facility with complete computerized operating systems. Such concrete accounts for nearly three-fourths of all concrete produced. Ready-mixed concrete is mixed on demand and is shipped to worksites by concrete mixer trucks.

Our ready-mixed concrete products consist of proportioned mixes we prepare and deliver in an unhardened plastic state for placement and shaping into designed forms at the worksite. Selecting the optimum mix for a worksite entails determining not only the ingredients with the desired permeability, strength, appearance and other properties after it hardened, but also the ingredients necessary to achieve a workable consistency considering the weather and other conditions at the worksite. We believe we can achieve product differentiation for the mixes we offer because of the variety of mixes we produce, our volume production capacity and our scheduling, delivery and placement reliability.

We produce ready-mixed concrete by combining the desired type of cement, other cementitious materials and gravel and crushed stone with water and, typically, one or more admixtures. These admixtures, such as chemicals, minerals and fibers, determine the usefulness of the product for particular applications.

We use a variety of chemical admixtures to relieve internal pressure, increase resistance to crack in subfreezing weather, retard the hardening process to make concrete more workable in hot weather, strengthen concrete by reducing its water content, accelerate the hardening process, reduce the time required for curing, and facilitate the placement of concrete acquiring low water content.

We frequently use various mineral admixtures as supplements to cement, which we refer to as cementitious materials, to alter the permeability, strength and other properties of concrete.

The ready-mixed concrete sector in the market is growing at a fast rate, largely due to the Chinese government's implementation of Decree #341 in 2004. This law bans on-site concrete production in over 200 cities across China, with the goal of reducing environmental damages from onsite concrete mixing and improving the quality of concrete used in construction. The use of ready-mix concrete minimizes worksite noise, dirt and congestion, and most additives used in ready-mix concrete are environmentally safe. Our goal is to continue the use of at least 30% recyclable components in our concrete mixtures.

We are building a comprehensive product portfolio that serves the diverse needs of our developing customer base and all unique construction and infrastructure projects. While we mainly specialize in ready-mix concrete formulations from controlled low-strength material to high-strength concrete, each of them are specifically formulated to meet the needs of each project. We provide both industry standard and highly innovative products, including:

**Common Industry Mixtures
(Customized to Project)**

Ready-mixed Concrete Blends: C10 to C100
Controlled Low-Strength Material (CLSM)
High-Strength Concrete with Customized Fibers
Soil Cement, Unique Foundation Concrete

**Industry Leading Mixtures
Highly Technical Blends**

Compound Admixture Concrete
Lightweight Aggregate Concrete
Energy-saving Phase change thermostat concrete
C100 High Performance Concrete

Our Customers

For the fiscal year ended June 30, 2017, we had one customer, whose sales accounted for more than 10% of our total sales. For the fiscal year ended June 30, 2016, we had no customer, whose sales accounted for more than 10% of our total sales. Five customers accounted for approximately 40% and 30% of the Company's sales for the years ended June 30, 2017 and 2016, respectively. The total accounts receivable from these customers amounted to approximately \$18.9 million and \$13.5 million as of June 30, 2017 and 2016, respectively.

Developing New Relationships

Our business will be damaged if project contracts with the Chinese government, for which we may act as a sub-contractor, are cancelled. Our sales strategy balances these risks by focusing on building new long-term cooperative relationships with some of China's top construction companies in order to enhance our reputation and to enter new markets. Our sales representatives are actively building relationships with the Chinese government, general contractors, architects, engineers, and other potential sources of new business in target markets. Our sales efforts are further supported by our executive officers and engineering personnel, who have substantial experience in the design, formulation and implementation of advanced construction and concrete materials projects.

Our Suppliers

We rely on third party suppliers of the raw materials to manufacture our products. Our top five suppliers accounted for approximately 48% and 28% of the Company's purchases for the years ended June 30, 2017 and 2016, respectively. The total accounts payable to these suppliers amounted to approximately \$4.5 million and \$8.5 million as of June 30, 2017 and 2016, respectively.

Sales and Marketing

General contractors typically select their suppliers of ready-mixed concrete and precast concrete. In large, complex projects, an engineering firm or division within a state transportation or public works department, may influence the

purchasing decision, particularly if the concrete has complicated design specifications. In connection with large, complex projects and government-funded projects, the general contractor or project engineer usually awards supply orders on the basis of either direct negotiation or a competitive bidding process. Our marketing efforts target on general contractors, developers, design engineers, architects and homebuilders whose focus extends beyond the price of our product to quality, consistency and reducing the in-place cost.

Our marketing efforts are geared toward advancing China-ACMH as the supplier to build China's most modern and challenging projects. The Company is constantly seeking ways to raise its profile and leverage additional publicity. To this end, the Company plans to expand its presence at leading construction industry events and in periodicals to build up successful reputation. The primary goal is to reinforce the sales efforts by promoting positive testimonials and successful stories from the Company's high profile clients and projects. Our marketing and sales strategy emphasizes on the sale of value-added products and solutions to customers.

Research and Development

Construction materials companies are under extreme pressure to respond quickly to industrial demands with new designs and product innovations that support rapidly changing technical demand and regulatory requirements. We devote a substantial amount of attention to the research and development of advanced construction materials that meet the specific needs of projects while striving to lead the industry in value, materials and processes. We have sophisticated in-house R&D and testing facilities, a highly technical onsite team, in cooperation with a leading research institution, experienced management and advisory experts. Our research and development expense was approximately \$0.8 million for the year ended June 30, 2017, as compared to \$0.7 million for the year ended June 30, 2016.

University Relationships & Cooperation Agreements

We have strong relationships with Tsinghua University and the Xi'an University of Architecture and Technology. We signed a ten-year cooperation agreement with Xi'an University, a top university in the fields of building and material science research and education, on June 10, 2007, so as to keep pace with the global advancements of the cement and concrete industries.

Beijing Concrete Institute Partnership

The Beijing Dongfang Jianyu Institute of Concrete Science & Technology, or Beijing Concrete Institute, has 40 employees, with five senior research fellows, and 15 mid-level researchers. The Institute and its staff have frequently participated and collaborated with national and local government agencies to establish the following industry standards:

Specification For Mix Proportion Design of Ordinary Concrete JGJ55-2000
Code for Acceptance of Constructional Quality Of Concrete Structures GB 50204-2002
Applied Technical Specification of Mineral Admixtures In Concrete DBJ/T01-64-2002
Ready-Mixed Concrete GB/T 14902-2003
Practice Code for Application of Ready-Mixed Mortar DBJ 01-99-2005
Management Specification of Quality for Ready-Mixed Concrete
Technical Requirement for Environmental Labeling Products Ready-Mixed Concrete HJ/T412- 2007
High Performance Concrete mineral admixtures; GB/T18736-2012
Test method for determining cement density GB/T 208-2014
Evaluation for Life Cycle Environment-friendly Assessment of concrete products national standard GB/T XXXX- 20XX
Compound admixtures for concrete industry standard JG/T XXXX-20XX
The evaluation system on clean production of ready-mixed concrete
Safety production management regulation of premixed concrete
Technical specifications of waster concrete regeneration, commercial standard

We have a close association with the Beijing Concrete Institute and have been able to incorporate many of these research findings into our operations, products, and procedures. We work closely with the institute and, in return for our sponsorships to multiple research initiatives, we have been granted exclusive works for the development of the materials used for our existing plant regional projects.

We are able to use the Research Findings and Technical Publication and Procedures of the Beijing Concrete Institute, University of Science and Technology Beijing, Beijing University of Technology, China Academy of Building Research, China Building Materials Academy in our business, which provides us with an advantage over many of our competitors. Because of our contracts with the institutes, our competitors are unable to commercially utilize the findings. Some of these findings include:

Research on Compound Admixture HPC; 3rd Class Award for China Building Materials Science & Technology Progress.

Research and Application of C100 HPC; 3rd Class Award for Beijing Science & Technology Progress.

Research on pumping Light Aggregate Concrete; Innovation Award for China Building Materials Science & Technology.

Research and Application of Green (nontoxic) HPC; First Prize for Beijing Science & Technology Progress.

Construction Technology of HPC for the Capital International Airport.

Research on Production and Construction Technology of Phase Change Energy-saving Thermostat Concrete and Mortar.

Polycarboxylate Series High Performance Water Reducing Agent Compositing Technique.

State Swimming Center for Concrete Cracking Control Technology.

Research on construction waste recycled materials in concrete; Through the identification of the scientific and technological achievements with China Building Materials Science & Technology Progress.

Research on the application of tailings waste rocks in the concrete. Through the scientific and technological achievements identification by China Building Materials Science & Technology.

The research and application of alkali-free & high performance accelerator on concrete; Through the scientific and technological achievement identification by China Building Materials Science & Technology.

In addition, we collaborate closely with the institute and its executives who play a strong role in recommending industry standards, advising on major infrastructure developments, and creating and maintaining strong connections with leading developers, construction companies, and governmental officials.

Successful Innovations

Some of our advanced products and processes are developed through our relationships with research institutes and universities, including:

C100 High Performance Concrete

High Strength Concrete is often defined as concrete with a compressive strength greater than 6000 psi (41 MPa). The primary difference between high-strength concrete and normal-strength concrete is the compressive strength that represent the maximum resistance of a concrete sample to applied pressure. Manufacturing high-strength concrete involves making optimal use of the basic ingredients that constitute normal-strength concrete.

Through our collaborative efforts, we have developed a high performance concrete which can be produced at an impermeable grade above P35, and can be used as self-waterproofing concrete for structural engineering, as the water-cement (W/C) ratio and carbonized shrinking is minimal and the structure is close-grained.

Only a limited number of corporations in the Beijing are equipped with the expertise to produce C100 High Performance Concrete.

Compound Admixture Concrete

This compound mineral mixture is a composite of coal powder, mineral powder and mineral activators blended to specific proportions. This mixture improves activity, filling, and super-additive effects of the concrete and also improves the compatibility between cement and aggregate.

Lightweight Aggregate Concrete & Innovative Pumping Technology

This procedure involves a pumping technology of lightweight aggregate. It is a pretreatment method of lightweight aggregate. Setting appropriate times and pressure, lightweight aggregate will reach an appropriate saturation state under pressure once it is put into a custom designed sealed pressure vessel. Lightweight aggregate concrete was prepared through the above pretreatment method, and would dry quicker under pumping pressure without losing consistency. Accordingly, lightweight aggregate concrete will be easily pumped when applied which shorten the construction time.

Energy-saving Technologies of Phase Change Thermostat Concrete

Energy conservation concrete may adjust and reflect process temperature, which would solve cracking problem brought about by cement heat of hydration in large-scale concrete pours.

Polycarboxylate Series High Performance Water Reducing Agent Compositing Technique

The research and production of water reducing admixture would improve performance while lowering pollution and environmental impact. Super plasticizer Polycarboxylate series which reduces water requirements is an attractive additive in that it enables high strength concrete, super-strength concrete, high fluidity and super plasticizer concrete, and self-defense concrete. The water reduction of Polycarboxylate may reach 20% to 25%, higher than the current industry standard -- the Naphthaline water reducing agent. The cost of the water reducing agent is highly competitive, as it may replace Naphthaline to be used for high strength and high performance concrete production.

Application of Reused Water in Concrete

The re-use of waste water of a concrete plant to mix concrete is significant as it can reduce production costs, minimize fresh water usage and introduce an efficient approach to address industrial waste. The practical application of this effort is a further step towards the goal of minimal pollution and emissions.

Our Competition

Our principal market, Beijing, has enjoyed stronger economic growth and a higher demand for construction than other regions of China. As a result, we believe that competitors will try to expand their sales and build up their distribution networks in Beijing. Our future success depends on our ability to establish and maintain a competitive position in the marketplace.

We compete primarily on the basis of quality, technological innovation and price. Our main competitors include Beijing Construction Engineering Group, BBMG Group Co., LTD, Beijing Uni-Construction Group., Jidong Concrete Group,.

Essentially all of the contracts we bid on are awarded through a competitive bid process with awards generally made to the lowest bidder, though other factors such as shorter completion time or prior experiences are often just as important. Within our markets, we compete with many national, regional and local construction corporations. Some of these competitors have achieved greater market penetration or have greater financial and other resources than us. In addition, we compete with a number of state-owned enterprises, which have significantly greater financial resources

and competitive advantage than us.

There are approximately 140 concrete mixture stations in the Beijing area. The concrete production industry is highly segmented, with no single supplier having greater than a 10% market share.

Intellectual Property

We currently own the following intellectual property rights:

Name	Patent No.	Duration	Patent Owner
An ultra-fine powder and its preparation method active regeneration	ZL 2013 1 0070164.7	July 9, 2014- July 8, 2034	Xin Ao
A Polycarboxylate and preparation method used recycled aggregate concrete	ZL 2013 1 0072014.X	January 1, 2014- December 31, 2034	Xin Ao
An early strength of recycled aggregate concrete superplasticizer	ZL 2013 1 0072015.4	April 9, 2014- April 8, 2034	Xin Ao

Environmental Matters

We are obliged to comply with environmental protection laws and regulations promulgated by the Ministry of Construction and the State Environmental Protection Administration. Some specific environmental regulations require sealed transportation of dust materials and final products, closed storage of sand and gravel, as well as reduction of noise and dust pollution on worksites and encouragement of the use of waste materials. The governmental regulatory authorities conduct periodic inspections. We have met all the requirements in the past inspections. We are one of the 10 companies in the industry that have been awarded the honor of *Green Concrete Producer* by the PRC government.

Regulation

The company has been in compliance with all registrations and requirements for the issuance and maintenance of all licenses and certificates required by the applicable governing authorities, including the Ministry of Construction and the Beijing Administration of Industry & Commerce. The Ministry of Construction awards Level II and Level III qualifications to concrete producers in the PRC construction industry, based on criteria such as production capacity, technical qualification, registered capital and capital equipment, as well as performance on their past projects. Level II companies are licensed to produce concrete of all strength levels as well as special concretes, and Level III producers are licensed to produce concrete with strength level C60 and below. We are currently a Level II concrete producer.

Additionally, to make improvements at our currently existing plant, we do not need to apply for regulatory approval. However, in order to build new concrete plants, we need to (i) apply for a business license from the local Administration of Industry and Commerce, (ii) receive environmental approval from the local Environmental Protection Bureau in the relevant district area, and (iii) apply for an Industry Qualification Certificate from the local Municipal Construction Committee. The time estimated to receive each of these approvals is approximately one month. In the past, we have not been rejected by any of these three regulators for approval.

Our Labor Force

As of June 30, 2017, we employed 322 full-time employees. The following table sets forth the number of our full-time employees by function as of June 30, 2017.

Employees/Independent Contractors and their Functions

Management & Administrative Staff	75	23.29%
Sales	24	7.45%
Technical & Engineering Staff	31	9.63%

Edgar Filing: China Advanced Construction Materials Group, Inc - Form 10-K

Production Staff	31	9.63%
Drivers & Heavy Equipment Operators	79	24.53%
Sub-Total	240	74.53%
Independent Contractors	82	25.47%
Total	322	100.00%
	16	

As required by applicable PRC law, we have entered into employment contracts with all our officers, managers and employees. We believe that we maintain a satisfactory working relationship with our employees and we have not experienced any significant labor disputes or any difficulty in recruiting staff.

In addition, we are required by PRC law to cover employees in China with various types of social insurance and believe that we are in material compliance with the relevant laws.

Insurance

We believe our insurance coverage is customary and standard for companies of comparable size in comparable industries in China.

Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this report, before making an investment decision. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS

Our business is subject to the risk of supplier concentration.

Our top five suppliers provide approximately 47.5% of the sourcing of the raw materials for our concrete production business for the year ended June 30, 2017. As a result of this concentration in our supply chain, our business and operations would be negatively affected if any of our key suppliers were to experience significant disruption affecting the price, quality, availability or timely delivery of their products. The partial or complete loss of one of these suppliers, or a significant adverse change in our relationship with any of these suppliers, could result in lost revenue, added costs and distribution delays that could harm our business and customer relationships. In addition, concentration in our supply chain can exacerbate our exposure to risks associated with the termination by key suppliers of our distribution agreements or any adverse change in the terms of such agreements, which could have an adverse impact on our revenues and profitability.

We may experience major accidents in the course of our operations, which may cause significant property damage and personal injuries.

Significant industry-related accidents and natural disasters may cause interruptions to various parts of our operations, or could result in property or environmental damage, increase in operating expenses or loss of revenue. The occurrence of such accidents and the resulting consequences may not be covered adequately, or at all, by the insurance policies we carry. In accordance with customary practice in China, we do not carry any business interruption insurance or third party liability insurance for personal injury or environmental damage arising from accidents on our property or relating to our operations other than our automobiles. Losses or payments incurred may have a material adverse effect on our operating performance if such losses or payments are not fully insured.

Our planned expansion and technical improvement projects could be delayed or adversely affected by, among other things, failures to receive regulatory approvals, difficulties in obtaining sufficient financing, technical difficulties, or human or other resource constraints.

We intend to expand new production facilities during the next few years. The costs projected for our planned expansion and technical improvement projects and expansion may exceed those originally contemplated. Cost savings and other economic benefits expected from these projects may not materialize as a result of any such project

delays, cost overruns or changes in market circumstances.

To make improvements at our currently existing plant, we do not need to apply for regulatory approval. However, in order to build a new concrete plant, we will need to (i) apply for a business license from the local Administration of Industry and Commerce, (ii) apply for an Industry Qualification Certificate from the local Municipal Construction Committee, and (iii) receive environmental approval from the local Environmental Protection Bureau in the relevant district area. There is no guarantee that we will be able to obtain these regulatory approvals in a timely manner or at all.

Additionally, in order to construct a new concrete plant, we may need to apply for a short term loan from a local commercial bank to be used for working capital. Because the lending policies of the local commercial banks are subject to change, there is no guarantee that we will be able to obtain approval for such a loan with conditions favorable to us in a timely manner or at all.

Failure to obtain intended economic benefits from these new plants and technical improvements projects, either due to cost overruns, our failure to obtain the necessary regulatory approvals or our failure to obtain necessary loan financing on terms favorable to us could adversely affect our business, financial condition and operating performances.

We cannot assure you that our growth strategy will be successful.

One of our strategies is to grow through increasing the distribution and sales of our products by penetrating existing markets in China and entering new geographic markets in China. However, many obstacles to entering such new markets exist including, but not limited to, competition from established companies in such existing markets in the China. We cannot, therefore, assure you that we will be able to successfully overcome such obstacles and establish our products in any additional markets. Our inability to implement this growth strategy successfully may have a negative impact on our growth, future financial condition, results of operations or cash flows.

If we fail to effectively manage our growth and expand our operations, our business, financial condition, results of operations and prospects could be adversely affected.

Our future success depends on our ability to expand our business to address growth in demand for our products and services. In order to maximize potential growth in our current and potential markets, we believe that we must expand our manufacturing and marketing operations. Our ability to accomplish these goals is subject to significant risks and uncertainties, including:

- the need for additional funding to construct additional manufacturing facilities, which we may be unable to obtain on reasonable terms or at all;

- delays and cost overruns as a result of a number of factors, many of which may be beyond our control, such as problems with equipment vendors and manufacturing services provided by third-party manufacturers or subcontractors;

- our receipt of any necessary government approvals or permits that may be required to expand our operations in a timely manner or at all;

- diversion of significant management attention and other resources; and

- failure to execute our expansion plan effectively.

To accommodate our growth, we will need to implement a variety of new and upgraded operational and financial systems, procedures, and controls, including improvements to our accounting and other internal management systems, by dedicating additional resources to our reporting and accounting function, and improvements to our record keeping and contract tracking system. We will also need to recruit more personnel and train and manage our growing

employee base. Furthermore, our management will be required to maintain and expand our relationships with our existing customers and find new customers for our services. There is no guarantee that our management can succeed in maintaining and expanding these relationships.

If we encounter any of the risks described above, or if we are otherwise unable to establish or successfully operate additional capacity or increase our output, we may be unable to grow our business and revenues, reduce our operating costs, maintain our competitiveness or improve our profitability and, consequently, our business, financial condition, results of operations, and prospects will be adversely affected.

If we are unable to accurately estimate the overall risks or costs associated with a project on which we are bidding on, we may achieve a profit lower than anticipated or even incur a loss on the contract.

Substantially all of our revenues and contract backlog are typically derived from fixed unit price contracts. Fixed unit price contracts require us to perform the contract for a fixed unit price irrespective of our actual costs. As a result, we realize a profit on these contracts only if we successfully estimate our costs and then successfully control actual costs and avoid cost overruns. If our cost estimates for a contract are inaccurate, or if we do not execute the contract within our cost estimates, then cost overruns may cause the contract not to be as profitable as we expected, or may cause us to incur losses. This, in turn, could negatively affect our cash flow, earnings and financial position.

The costs incurred and gross profit realized on those contracts can vary, sometimes substantially, from the original projections due to a variety of factors, including, but not limited to:

- onsite conditions that differ from those assumed in the original bid;
- delays caused by weather conditions;
- later contract start dates than expected when we bid on the contract;
- contract modifications creating unanticipated costs not covered by change orders;
- changes in availability, proximity and costs of materials, including steel, concrete, aggregate and other construction materials (such as stone, gravel and sand), as well as fuel and lubricants for our equipment;
- availability and skill level of workers in the geographic location of a project;
- our suppliers or subcontractors failure to perform;
- fraud or theft committed by our employees;
- mechanical problems with our machinery or equipment;
- citations issued by governmental authorities
- difficulties in obtaining required governmental permits or approvals;
- changes in applicable laws and regulations; and
- claims or demands from third parties alleging damages arising from our work or from the project of which our work is part.

Economic downturns or reductions in government funding of infrastructure projects could significantly reduce our revenues.

Our business is highly dependent on the amount of infrastructure work funded by various governmental entities, which, in turn, depends on the overall condition of the economy, the need for new or replacement infrastructure, the priorities placed on various projects funded by governmental entities and national or local government spending levels. Decreases in government funding of infrastructure projects could decrease the number of civil construction contracts available and limit our ability to obtain new contracts, which could reduce our revenues and profits.

The worldwide recession and credit crisis could impact our business.

The tightening of credit in financial markets and the general economic downturn could adversely affect the ability of our customers, and suppliers to obtain the financing they need to make purchases from us, to perform their obligations under agreements with us or even to continue their operations. The credit tightening and decreased cash availability could also result in an increase in cancellation of orders for our products and services and/or a decrease in demand for our products and services in the markets in which we operate. While we believe that the effects of the recession and credit crisis have abated, we are unable to predict potential future economic conditions and disruptions in financial markets or their effect on our business and results of operations, and the consequences may be materially adverse.

Our concrete production plant in Beijing may be subject to a general city rezoning plan which, if implemented in the future, may require us to relocate or possibly permanently shut down certain of this plant.

Our concrete production plant in Beijing may be subject to a general city rezoning plan which has been prepared by the Beijing municipal government. Under the rezoning plan, it is intended that the properties where this plant is located will be rezoned from industrial to commercial use. If and when implemented in respect of those properties, the rezoning plan may require us to vacate these properties and relocate the plant. In the event we are required to vacate the above properties, we would implement certain strategies to minimize any loss of production capacity during relocation. There can be no assurance that our strategies to deal with the relocation of the facilities can be implemented, or that such strategies can be implemented before we are required to vacate the above properties due to the proposed general city rezoning plan. If we are required to relocate the facilities, our results of operation and financial condition may be materially and adversely affected.

Our exposure to financially troubled customers or suppliers could harm our business, financial condition and operating results.

We produce, sell and deliver ready-mix concrete, and rely on suppliers, that have in the past and may in the future experience financial difficulty, particularly in light of recent conditions in the credit markets and the overall economy that affected access to capital and liquidity. As a result, we devote significant resources to monitor receivables and inventory balances with certain of our customers. If our customers experience financial difficulty, we could have difficulty recovering amounts owed to us from these customers, or demand for our services from these customers could decline. Furthermore, the government tightened monetary policy in order to regulate inflation, which in turn led to delayed payment on our housing construction projects. Due to concern over inflation, the Chinese government began to tighten its monetary policy from October of 2010, which affected the real estate and construction industries adversely. As a result, our accounts receivable increased and the provision for doubtful accounts expense also increased. Some of our customers appeared to suffer from declining business and shortage in cash. The allowance for doubtful accounts increased to approximately \$15.8 million as of June 30, 2017, compared to approximately \$11.5 million as of June 30, 2016. In fact, our provision for doubtful accounts, as a percentage of our overall accounts receivable, has increased from approximately 22% as of June 30, 2016, to approximately 25% as of June 30, 2017. The inability to collect on our outstanding accounts receivable could adversely affect our operating cash flows and reduce our working capital. As a result, we may suffer material write-offs on our accounts receivable. The inability of our suppliers to supply us with needed raw material could adversely affect our production process and therefore, we may not be able to fulfill our contract arrangements with customers.

We rely on internal models to manage risk, to provide accounting estimates and to make other business decisions. Our results could be adversely affected if those models do not provide reliable estimates or predictions of future activity.

We rely heavily on internal models in making a variety of decisions crucial to the successful operation of our business, including allowances for doubtful accounts and other accounting estimates. It is therefore important that our models are accurate, and any failure in this regard could have a material adverse effect on our results. Models are inherently imperfect predictors of actual results because they are based on historical data available to us and our assumptions about factors such as credit demand, payment rates, default rates, delinquency rates and other factors that may overstate or understate future experience. Our models could produce unreliable results for a number of reasons, including the limitations of historical data to predict results due to unprecedented events or circumstances, invalid or incorrect assumptions underlying the models, the need for manual adjustments in response to rapid changes in economic conditions, incorrect coding of the models, incorrect data being used by the models or inappropriate application of a model to products or events outside of the model's intended use. In particular, models are less dependable when the economic environment is outside of historical experience, as has been the case recently. Due to the factors described above and in "Management's Discussion and Analysis of Financial Condition and Results of Operations", we may, among other things, experience actual charge-offs that exceed our estimates and which are

possibly greater than our allowance for doubtful accounts, or which require material adjustments to the allowance. Unanticipated and excessive default and charge-off experience can adversely affect our profitability and financial condition and adversely affect our ability to finance our business.

Our business will be damaged if project contracts with the Chinese government, for which we may act as a subcontractor are cancelled.

We do not enter into any contracts directly with the Chinese government. For contracts that are funded by the Chinese government, we place bids and enter into subcontracts with the private entity prime contractor. A sudden cancellation of a prime contract, and in turn our subcontract, could cause our equipment and work crews to remain idle for a significant period of time until other comparable work becomes available. This idle time could have a material adverse effect on our business and results of operations.

Our industry is highly competitive, with numerous larger companies with greater resources competing with us, and our failure to compete effectively could reduce the number of new contracts awarded to us or adversely affect our margins on contracts awarded.

Our competition includes a number of state-owned and large private PRC-based manufacturers and distributors that produce and sell products similar to ours. We compete primarily on the basis of quality, technological innovation and price. Essentially all of the contracts on which we bid are awarded through a competitive bid process, with awards generally being made to the lowest bidder, though other factors such as shorter schedules or prior experience with the customer are often just as important. Within our markets, we compete with many national, regional and local state-owned and private construction firms. Some of these competitors have achieved greater market penetration or have greater financial and other resources than us. In addition, there are a number of larger national companies in our industry that could potentially establish a presence in our markets and compete with us for contracts. As a result, we may need to accept lower contract margins in order to compete against these competitors. If we are unable to compete successfully in our markets, our relative market share and profits could be reduced.

We could face increased competition in our principal market.

Our principal market, Beijing, has enjoyed stronger economic growth and a higher demand for construction than other regions of China. As a result, we believe that competitors will try to expand their sales and build up their distribution networks in our principal market. We anticipate that this trend will continue and likely accelerate. Increased competition may have a material adverse effect on our financial condition and results of operations.

Our dependence on subcontractors and suppliers of materials could increase our costs and impair our ability to compete on contracts on a timely basis or at all, which would adversely affect our profits and cash flow.

We rely on third-party subcontractors to perform some of the work on many of our contracts. We do not bid on contracts unless we have the necessary subcontractors committed for the anticipated scope of the contract and at prices that we have included in our bid. Therefore, to the extent that we cannot obtain third-party subcontractors, our profits and cash flow will suffer.

We may be exposed to liabilities under the Foreign Corrupt Practices Act, and any determination that we violated the Foreign Corrupt Practices Act or Chinese anti-corruption law could have a material adverse effect on our business.

We are subject to the Foreign Corrupt Practice Act, or FCPA, and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. persons and issuers as defined by the statute for the purpose of obtaining or retaining business. Chinese anti-corruption law also strictly prohibits bribery of government officials. We have operations, agreements with third parties and make sales in China, where corruption may occur. Our activities in China create the risk of unauthorized payments or offers of payments by one of the employees, consultants, sales agents or distributors of our Company, even though these parties are not always subject to our control. It is our policy to implement safeguards to prevent these practices by our employees. However, our existing safeguards and any future improvements may prove to be less than effective, and the

employees, consultants, sales agents or distributors of our Company may engage in conduct for which we might be held responsible.

Violations of the FCPA or other anti-corruption laws may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition. In addition, the United States government may seek to hold our Company liable for successor liability FCPA violations committed by companies in which we invest or that we acquire.

We depend heavily on key personnel, and turnover of key employees and senior management could harm our business.

Our future business and results of operations depend in significant part upon the continued contributions of our key technical and senior management personnel, including Xianfu Han, our Chairman and Chief Executive Officer and Weili He, our Vice-Chairman and interim Chief Financial Officer. They also depend in significant part upon our ability to attract and retain additional qualified management, technical, operational and support personnel for our operations. If we lose a key employee, if a key employee fails to perform in his or her current position, or if we are not able to attract and retain skilled employees as needed, our business could suffer. Significant turnover in our senior management could significantly deplete the institutional knowledge held by our existing senior management team. We depend on the skills and abilities of these key employees in managing the reclamation, technical, and marketing aspects of our business, any part of which could be harmed by turnover in the future.

Certain of our existing stockholders have substantial influence over our company, and their interests may not be aligned with the interests of our other stockholders.

Our Chairman, Xianfu Han, owns approximately 22.3% of our outstanding voting securities and our Vice-Chairman, Weili He, owns approximately 15.7% of our outstanding voting securities as of June 30, 2017, in a fully-diluted share base. As a result, each have significant influence over our business, including decisions regarding mergers, consolidations, liquidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. This concentration of ownership may also have the effect of discouraging, delaying or preventing a future change of control, which could deprive our stockholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our shares.

We may be exposed to uncertainty relating to our investments with various financial investment companies.

We may decide to pursue short-term or long-term investments depends on various business conditions or future developments. The level of risk associated with a particular investment or asset class varies, but investments are generally subject to market risk, default risk, Inflation risk and mortality risk. Due to these risks, investments generally subject to uncertainty of the return of proceeds and possibly principles. In addition, hedging, insurance, and other ways to manage risk are not always readily available. Any failure by the Company to collect returns or principles of its investments could have a material adverse effect on our business, financial condition and results of operations.

We may require additional capital and we may not be able to obtain it on acceptable terms or at all.

We may require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity securities could result in dilution to our stockholders. The incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operating and financing covenants that would restrict our operations. Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors' perception of, and demand for, securities of Chinese-based companies involved in construction supply or concrete industries;
- conditions of the U.S. and other capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows; and
- economic, political and other conditions in China.

Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could have a material adverse effect on our business, financial condition and

results of operations.

We may be exposed to potential risks relating to our internal controls over financial reporting.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002 or SOX 404, the SEC adopted rules requiring public companies to include a report of management on the company's internal controls over financial reporting in their annual reports. Under current law, the auditor attestation will not be required as long as our filing status remains as a smaller reporting company, but we may cease to be a smaller reporting company in future years, in which case we will be subject to the auditor attestation requirement. We were subject to management report for the fiscal year ended June 30, 2017, and a report of our management for the 2017 fiscal year is included under Item 9A of this annual report concluding that, as of June 30, 2017, our internal controls over financial reporting were not effective. If we cannot remediate the material weakness identified in a timely manner or, if and when we are subject to the auditor attestation report requirement, we are unable to receive a positive attestation from our independent auditors with respect to our internal controls, investors and others may lose confidence in the reliability of our financial statements, which could adversely affect the price of our common stock.

We have limited insurance coverage for our operations in China.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited insurance products. We have determined that the risks of disruption or liability from our business, the loss or damage to our property, including our facilities, equipment and office furniture, the cost of insuring for these risks, and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. As a result, we do not have any business liability, disruption, litigation or property insurance coverage for our operations in China except for insurance on some company owned vehicles. Any uninsured occurrence of loss or damage to property, or litigation or business disruption may result in the incurrence of substantial costs and the diversion of resources, which could have an adverse effect on our operating results.

We may not be current in our payment of social insurance and housing accumulation fund for our employees and such shortfall may expose us to relevant administrative penalties.

The PRC laws and regulations require all employers in China to fully contribute their own portion of the social insurance premium and housing accumulation fund for their employees within a certain period of time. Failure to do so may expose the employers to make rectification for the accrued premium and fund by the relevant labor authority. Also, an administrative fine may be imposed on the employers as well as the key management members. As of June 30, 2017, Xin Ao has fully contributed the social insurance premium and housing accumulation fund according to PRC laws and regulations.

Our operations may incur substantial liabilities to comply with environmental laws and regulations.

Our concrete manufacturing operations are subject to laws and regulations relating to the release or disposal of materials into the environment or otherwise relating to environmental protection. Applicable law required that we obtain an environmental impact report and environmental approval from the environmental protection administration prior to obtaining the business license and construction enterprise qualification certificate for Xin Ao. However, the local administration of industry and commerce and the Beijing Municipal Construction Commission did not require Xin Ao to provide the environmental impact report and environmental approval, and Xin Ao has not received any notice of non-compliance nor has any fine or other penalty been assessed. However, the environmental protection administration may in the future require that Xin Ao provide the applicable report and apply for the required environment approval. Our failure to have complied with the applicable laws regarding delivery of the report may result in the assessment of administrative, civil and criminal penalties, the incurrence of investigatory or remedial obligations and the imposition of injunctive relief. Resolution of these matters may require considerable management time and expense. In addition, changes in environmental laws and regulations occur frequently and any changes that result in more stringent or costly manufacturing, storage, transport, disposal or cleanup requirements could require us to make significant expenditures to reach and maintain compliance and may otherwise have a material adverse effect

on our industry in general and on our own results of operations, competitive position or financial condition.

If we are unable to realize the current assets within the normal operating cycle, the Company may not have sufficient funds to meet our working capital requirements and debt obligations as they become due.

Our business is capital intensive and highly leveraged. Debt financing in the form of short term bank loans, loans from related parties and bank acceptance notes, have been utilized to finance the working capital requirements and the capital expenditures of the Company. There are a number of factors, such as the demand for the Company's products, economic conditions, the competitive pricing in the concrete-mix industry, the Company's operating results not continuing to deteriorate and the Company's bank and shareholders being able to provide continued support, might result in insufficient funds to meet our working capital requirements, operating expenses and capital expenditure obligations. Due to recurring losses, the Company's working capital was approximately \$7.5 million as of June 30, 2017 as compared to \$16.4 million as of June 30, 2016. As of June 30, 2017, cash on-hand balance of approximately \$0.2 million and restricted cash balance of approximately \$4.2 million with the remaining current assets are mainly composed of accounts receivables and prepayments and advances. If we fail to realize the current assets within the normal operating cycle, or if we are otherwise unable to establish other available funds, we may not have sufficient funds to meet our working capital requirements and debt obligations, grow our business and revenues, reduce our operating costs and, consequently, our business, financial condition, results of operations, and prospects will be adversely affected.

RISKS RELATED TO DOING BUSINESS IN CHINA

In order to comply with PRC regulatory requirements, we operate our businesses through companies with which we have contractual relationships but in which we do not have controlling ownership. If the PRC government determines that our agreements with these companies are not in compliance with applicable regulations, our business in the PRC could be materially adversely affected.

We do not have direct or indirect equity ownership of our variable interest entity, or VIE, Xin Ao, which operates all our businesses in China. At the same time, however, we have entered into contractual arrangements with Xin Ao and its individual owners pursuant to which we received an economic interest in, and exert a controlling influence over Xin Ao, in a manner substantially similar to a controlling equity interest.

Although we believe that our current business operations are in compliance with the current laws in China, we cannot be sure that the PRC government would view our operating arrangements to be in compliance with PRC regulations that may be adopted in the future. There have been recent reports of potential PRC government efforts to regulate or perhaps limit the use of VIE structures for new foreign investment, particularly in the internet and other telecommunications industries. We are monitoring developments in this area and do not believe any adverse impact on our operations is likely.

If we are determined not to be in compliance with future PRC regulations, the PRC government could levy fines, revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, require us to restructure our business, corporate structure or operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business. As a result, our business in the PRC could be materially adversely affected.

A slowdown or other adverse developments in the PRC economy may materially and adversely affect our customers, demand for our services and our business.

We are a holding company. All of our operations are conducted in the PRC and all of our revenues are generated from sales in the PRC.

According to several articles published by the Wall Street Journal, CNN, and BBC News in January 2016, after experiencing rapid growth for more than a decade, China's economy has been hit by shrinking foreign and domestic demand, weak investment, factory overcapacity and oversupply in the property market, and has experienced a painful slowdown in the last two years. In 2016, China's economy grew by 6.7%, compared with 6.9% a year earlier, marking its slowest growth in a quarter of a century. As the government tried to shift the growth engine away from manufacturing and debt-fueled investment toward the services sector and consumer spending, the outlook of the Chinese economy is uncertain.

In the next two to three years, China's growth performance could deteriorate because of the overhang of its real estate bubble, massive manufacturing overcapacity, and the lack of new growth engines. The International Monetary Fund expected China's economy to grow by 6.5% in 2017. If China's economy is further slowing down, it may negatively affect our business operation and financial results.

We rely on contractual arrangements with our VIEs for our operations, which may not be as effective in providing control over these entities as direct ownership.

Our operations and financial results are dependent on our VIEs, Xin Ao and its subsidiaries, in which we have no equity ownership interest and must rely on contractual arrangements to control and operate the businesses of our VIEs. These contractual arrangements are not as effective in providing control over the VIEs as direct ownership. For

example, the VIEs may be unwilling or unable to perform its contractual obligations under our commercial agreements. Consequently, we would not be able to conduct our operations in the manner currently planned. In addition, the VIEs may seek to renew their agreements on terms that are disadvantageous to us. Although we have entered into a series of agreements that provide us with substantial ability to control the VIEs, we may not succeed in enforcing our rights under them insofar as our contractual rights and legal remedies under PRC law are inadequate. In addition, if we are unable to renew these agreements on favorable terms when these agreements expire or enter into similar agreements with other parties, our business may not be able to operate or expand, and our operating expenses may significantly increase.

In addition, the VIE structure is subject to uncertainty amid the PRC's changing legislative practice. In January 2015, China's Ministry of Commerce unveiled a draft legislation that could change how the government is regulating corporate structures, especially for VIEs controlled by foreign investments. Instead of looking at ownership, the draft law focused on the entities or individuals hold control of a VIE. If a VIE is deemed to be controlled by foreign investors, it may be barred from operating in restricted sectors or the prohibited sectors listed on a negative list, where only companies controlled by Chinese nationals could operate, even if structured as VIEs.

In the event that the draft law is implemented in any form, and that the Company's business is characterized as one of the restricted or prohibited sectors, Xin Ao and its subsidiaries may be barred from operation which will materially adversely affect our business.

If we become directly subject to the recent scrutiny, criticism and negative publicity involving certain U.S.-listed Chinese companies, we may have to expend significant resources to investigate and resolve the matter which could harm our business operations, stock price and reputation and could result in a loss of your investment in our stock, especially if such matter cannot be addressed and resolved quickly.

Recently, U.S. public companies that have substantially all of their operations in China, particularly companies like us which have completed so-called reverse merger transactions, have been the subject of intense scrutiny, criticism and negative publicity by investors, short sellers, financial commentators and regulatory agencies, such as the United States Securities and Exchange Commission. Much of the scrutiny, criticism and negative publicity has centered around financial and accounting irregularities and mistakes, a lack of effective internal controls over financial accounting, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result of the scrutiny, criticism and negative publicity, the publicly traded stock of many U.S. listed Chinese companies has sharply decreased in value and, in some cases, has become virtually worthless. Many of these companies are now subject to shareholder lawsuits, SEC enforcement actions and are conducting internal and external investigations into the allegations. It is not clear what affect this sector-wide scrutiny, criticism and negative publicity will have on our company, our business and our stock price. If we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we will have to expend significant resources to investigate such allegations and/or defend our company. This situation could be costly and time consuming and distract our management from growing our company. If such allegations are not proven to be groundless, our company and business operations will be severely impacted and your investment in our stock could be rendered worthless.

Adverse changes in political and economic policies of the PRC government could impede the overall economic growth of China, which could reduce the demand for our products and damage our business.

We conduct all of our operations and generate all of our revenue in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in many respects, including:

- the higher level of government involvement;
- the early stage of development of the market-oriented sector of the economy;
- the rapid growth rate;
- the higher level of control over foreign exchange; and
- the allocation of resources.

As the PRC economy has been transitioning from a planned economy to a more market-oriented economy, the PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. While these measures may benefit the overall PRC economy, they may also have a negative effect on us.

Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the PRC government continues to exercise significant control over economic growth in China through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting

Edgar Filing: China Advanced Construction Materials Group, Inc - Form 10-K
monetary policy and imposing policies that impact particular industries or companies in different ways.

Any adverse change in the economic conditions or government policies in China could have a material adverse effect on the overall economic growth and the level of new construction investments and expenditures in China, which in turn could lead to a reduction in demand for our services and consequently have a material adverse effect on our business and prospects.

Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.

We conduct substantially all of our business through our operating subsidiary in the PRC. Our operating subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is based on written statutes, and prior court decisions may be cited for reference but have limited precedential value. Since 1979, a series of new PRC laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to you and us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. In addition, all of our executive officers and almost all of our directors are residents of China and not of the United States, and substantially all the assets of these persons are located outside the United States. As a result, it could be difficult for investors to affect service of process in the United States or to enforce a judgment obtained in the United States against our Chinese operations and subsidiaries.

The PRC government exerts substantial influence over the manner in which we must conduct our business activities.

The PRC government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of the jurisdictions in which we operate may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations.

Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof and could require us to divest ourselves of any interest we then hold in Chinese properties or joint ventures.

Restrictions on currency exchange may limit our ability to receive and use our sales revenue effectively.

Most of our sales revenue and expenses are denominated in RMB. Under PRC law, the RMB is currently convertible under the current account, which includes dividends and trade and service-related foreign exchange transactions, but not under the capital account, which includes foreign direct investment and loans. Currently, our PRC operating subsidiary may purchase foreign currencies for settlement of current account transactions, including payments of dividends to us, without the approval of the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. However, the relevant PRC government authorities may limit or eliminate our ability to purchase foreign currencies in the future. Since a significant amount of our future revenue will be denominated in RMB, any existing and future restrictions on currency exchange may limit our ability to utilize revenue generated in RMB to fund our business activities outside China that are denominated in foreign currencies.

Foreign exchange transactions by PRC operating subsidiaries under the capital account continue to be subject to significant foreign exchange controls and require the approval of or need to register with PRC government authorities, including SAFE. In particular, if our PRC operating subsidiaries borrow foreign currency through loans from us or

other foreign lenders, these loans must be registered with SAFE, and if we finance the subsidiaries by means of additional capital contributions, these capital contributions must be approved by certain government authorities, including the Ministry of Commerce, or MOFCOM, or their respective local counterparts. These limitations could affect their ability to obtain foreign exchange through debt or equity financing.

We may be unable to complete a business combination transaction efficiently or on favorable terms due to complicated merger and acquisition regulations implemented on September 8, 2006.

The recent PRC Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors also governs the approval process by which a PRC company may participate in an acquisition of its assets or its equity interests. Depending on the structure of the transaction, the new regulation will require the Chinese parties to make a series of applications and supplemental applications to the government agencies. In some instances, the application process may require the presentation of economic data concerning a transaction, including appraisals of the target business and evaluations of the acquirer, which are designed to allow the government to assess the transaction. Government approvals will have expiration dates by which a transaction must be completed and reported to the government agencies. Compliance with the new regulations is likely to be more time consuming and expensive than in the past and the government can now exert more control over the combination of two businesses. Accordingly, due to the new regulation, our ability to engage in business combination transactions has become significantly more complicated, time consuming and expensive, and we may not be able to negotiate a transaction that is acceptable to our stockholders or sufficiently protect their interests in a transaction.

The new regulation allows PRC government agencies to assess the economic terms of a business combination transaction. Parties to a business combination transaction may have to submit to MOFCOM and the other government agencies an appraisal report, an evaluation report and the acquisition agreement, all of which form part of the application for approval, depending on the structure of the transaction. The regulations also prohibit a transaction at an acquisition price obviously lower than the appraised value of the Chinese business or assets and in certain transaction structures, require that consideration must be paid within defined periods, generally not in excess of a year. The regulation also limits our ability to negotiate various terms of the acquisition, including aspects of the initial consideration, contingent consideration, holdback provisions, indemnification provisions and provisions relating to the assumption and allocation of assets and liabilities. Transaction structures involving trusts, nominees and similar entities are prohibited. Therefore, such regulation may impede our ability to negotiate and complete a business combination transaction on financial terms that satisfy our investors and protect our stockholders' economic interests.

Fluctuations in exchange rates could adversely affect our business and the value of our securities.

The value of our common stock will be indirectly affected by the foreign exchange rate between U.S. dollars and RMB and between those currencies and other currencies in which our sales may be denominated. Because substantially all of our earnings and cash assets are denominated in RMB, fluctuations in the exchange rate between the U.S. dollar and the RMB will affect our balance sheet and our earnings per share in U.S. dollars. In addition, appreciation or depreciation in the value of the RMB relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue that will be exchanged into U.S. dollars and earnings from, and the value of, any U.S. dollar-denominated investments we make in the future. From June 30, 2016 to June 30, 2017, the PRC Government devalued its currency by approximately 2.1%, represented the largest yuan depreciation for 20 years. China weakened the value of RMB currency by 2.1% to 6.78 against the US dollar on June 30, 2017 from 6.64 against the US dollar on June 30, 2016. Concerns remain that China's slowing economy, and in particular its exports, will need a stimulus that can only come from further cuts in the exchange rate.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currencies.

Currently, some of our raw materials and major equipment are imported. In the event that the U.S. dollars appreciate against RMB, our costs will increase. If we cannot pass the resulting costs on to our customers, our profitability and operating results will suffer.

Under the Current Enterprise Income Tax, or EIT, Law, we may be classified as a "resident enterprise" of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC stockholders.

We are a holding company incorporated under the laws of Nevada. We conduct substantially all of our business through our wholly-owned and other consolidated entities in China, and we derive all of our income from these entities. Prior to January 1, 2008, dividends derived by foreign enterprises from business operations in China were not subject to the Chinese enterprise income tax. However, such tax exemption ceased as of January 1, 2008 and thereafter with the effectiveness of the new Enterprise Income Tax Law, or EIT Law.

Under the EIT Law, if we are not deemed to be a resident enterprise for Chinese tax purposes, a withholding tax at the rate of 10% would be applicable to any dividends paid by our Chinese subsidiaries to us. However, if we are deemed to be a resident enterprise established outside of China whose place of effective management is located in China, we would be classified as a resident enterprise for Chinese tax purposes and thus would be subject to an enterprise income tax rate of 25% on all of our income, including interest income on the proceeds from this offering on a worldwide basis.

The regulations promulgated pursuant to the EIT Law define the term place of effective management as establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise. The State Administration of Taxation issued a SAT Circular 82 on April 22, 2009, which provides that the place of effective management of a Chinese-controlled overseas-incorporated enterprise is located in China if the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations function are mainly located in the PRC; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies located in the PRC; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders meetings are located or kept in the PRC; and (iv) no less than half of the enterprise's directors or senior management with voting rights reside in the PRC. SAT Circular 82 applies only to overseas registered enterprises controlled by PRC enterprises, not to those controlled by PRC individuals. If the Company's non-PRC incorporated entities are deemed PRC tax residents, such entities would be subject to PRC tax under the EIT Law. The Company has analyzed the applicability of the EIT Law and related regulations, and for each of the applicable periods presented, the Company has not accrued for PRC tax on such basis. In addition, although under the EIT Law and the related regulations dividends paid to us by our PRC subsidiaries would qualify as tax-exempted income, we cannot assure you that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. As a result of such changes, our historical operating results will not be indicative of our operating results for future periods and the value of our shares of common stock may be adversely affected. We are actively monitoring the possibility of resident enterprise treatment and are evaluating appropriate organizational changes to avoid this treatment, to the extent possible.

We may be subject to fines and legal sanctions if we or our Chinese employees fail to comply with PRC regulations relating to employee stock options granted by overseas listed companies to PRC citizens.

On December 25, 2006, the People's Bank of China issued the Administration Measures on Individual Foreign Exchange Control, and its Implementation Rules were issued by the State Administration of Foreign Exchange (SAFE) on January 5, 2007. Both took effect on February 1, 2007. Under these regulations, all foreign exchange matters involved in an employee stock holding plan, stock option plan or similar plan in which PRC citizens participation requires approval from the SAFE or its authorized branch. On March 28, 2007, the SAFE issued the Application Procedure for Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plans or Stock Option Plans of Overseas Listed Companies, or Notice 78. Under Notice 78, PRC individuals who participate in an employee stock option holding plan or a stock option plan of an overseas listed company are required, through a PRC domestic agent or PRC subsidiary of the overseas listed company, to register

with the SAFE and complete certain other procedures. We and our Chinese employees who have been granted shares or stock options pursuant to our share incentive plan are subject to Notice 78. However, in practice, there are significant uncertainties with regard to the interpretation and implementation of Notice 78. We are committed to complying with the requirements of Notice 78. However, we cannot provide any assurance that we or our Chinese employees will be able to qualify for or obtain any registration required by Notice 78. In particular, if we and/or our Chinese employees fail to comply with the provisions of Notice 78, we and/or our Chinese employees may be subject to fines and legal sanctions imposed by the SAFE or other PRC government authorities, as a result of which our business operations and employee option plans could be materially and adversely affected.

The discontinuation, reduction or delay of any of the preferential tax treatments currently available to us in the PRC could materially and adversely affect our business, financial condition and results of operations.

Prior to January 1, 2008, under the old enterprises income tax law, Xin Ao was subject to a 33% income tax rate, which was subject to certain tax holidays and preferential tax rates. Under the new enterprise income tax law effective January 1, 2008, or the EIT Law, both foreign-invested enterprises and domestic enterprises are subject to a unified 25% income tax rate. Under the EIT Law, preferential tax treatments will be granted to enterprises that conduct business in certain encouraged sectors and to enterprises that qualify as high and new technology enterprises, a status reassessed every three years. In addition, an enterprise is entitled to a 0% value-added tax rate if it uses recycled raw materials to manufacture its products. Xin Ao was recognized as a high and new technology enterprise in January 2012 and was entitled to a 15% preferential income tax rate for the three-year period ended December 2014. In addition, Xin Ao uses recycled raw materials to manufacture its products and was entitled to a 0% value-added tax (the VAT tax) rate from June 2013. The favored treatment of being exempted from the VAT tax expired in June 2015, therefore, we will be subject to the 3% industry-standard rate and our value-added tax expenses increase, which could have a material adverse effect on our net income and results of operations.

RISKS RELATED TO THE MARKET FOR OUR COMMON STOCK

Our shares of common stock are very thinly traded, and there can be no assurance that there will be an active market for our shares of common stock in the future.

Our shares of common stock are very thinly traded, and the price if traded may not reflect our value. There can be no assurance that there will be an active market for our shares of common stock in the future. The market liquidity will be dependent on the perception of our operating business and any steps that our management might take to bring us to the awareness of investors. There can be no assurance given that there will be any awareness generated. Consequently, investors may not be able to liquidate their investment or liquidate it at a price that reflects the value of the business. If a more active market should develop, the price may be highly volatile. Because there may be a low price for our shares of common stock, many brokerage firms may not be willing to effect transactions in the securities. Even if an investor finds a broker willing to effect a transaction in the shares of our common stock, the combination of brokerage commissions, transfer fees, taxes, if any, and any other selling costs may exceed the selling price. Further, many lending institutions will not permit the use of such shares of common stock as collateral for any loans.

We do not intend to pay dividends on shares of our common stock for the foreseeable future, but if we intend to do so our holding company structure may limit the payment of dividends to our stockholders.

We have no direct business operations, other than our ownership of our subsidiaries. While we have no current intention of paying dividends, should we decide in the future to do so, as a holding company, our ability to pay dividends and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiaries and other holdings and investments. In addition, our operating subsidiaries, from time to time, may be subject to restrictions on their ability to make distributions to us, including as a result of restrictive covenants in loan agreements, restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions as discussed below. If future dividends are paid in RMB, fluctuations in the exchange rate for the conversion of RMB into U.S. dollars may reduce the amount received by U.S. stockholders upon conversion of the dividend payment into U.S. dollars.

Chinese regulations currently permit the payment of dividends only out of accumulated profits as determined in accordance with Chinese accounting standards and regulations. Our subsidiaries in China are also required to set aside a portion of their after tax profits according to Chinese accounting standards and regulations to fund certain reserve funds. Currently, our subsidiaries in China are the only sources of revenues or investment holdings for the payment of dividends. If they do not accumulate sufficient profits under Chinese accounting standards and regulations to first fund certain reserve funds as required by Chinese accounting standards, we will be unable to pay any dividends.

We may be subject to penny stock regulations and restrictions and you may have difficulty selling shares of our common stock.

The SEC has adopted regulations which generally define so-called penny stocks to be an equity security that has a market price less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exemptions. If our common stock becomes a penny stock, we may become subject to Rule 15g-9 under the Exchange Act, or the Penny Stock Rule. This rule imposes additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers and accredited investors (generally, individuals with a net worth in excess of \$1,000,000 or annual incomes exceeding \$200,000, or \$300,000 together with their spouses). For transactions covered by Rule 15g-9, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. As a result, this rule may affect the ability of broker-dealers to sell our securities and may affect the ability of purchasers to sell any of our securities in the secondary market.

For any transaction involving a penny stock, unless exempt, the rules require delivery, prior to any transaction in a penny stock, of a disclosure schedule prepared by the SEC relating to the penny stock market. Disclosure is also required to be made about sales commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stock.

There can be no assurance that our common stock will qualify for exemption from the Penny Stock Rule. In any event, even if our common stock were exempt from the Penny Stock Rule, we would remain subject to Section 15(b)(6) of the Exchange Act, which gives the SEC the authority to restrict any person from participating in a distribution of penny stock, if the SEC finds that such a restriction would be in the public interest.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

There is no private land ownership in China. Individuals and companies are permitted to acquire land use rights for specific purposes. We lease our 44,041 square meter facility located at Jia 1, SanTaiShan, XiaoHongMen County, ChaoYang District, Beijing, China, from Beijing SanTaiShan Chemical Trading & Logistics Co., who was granted land use rights from the PRC government. The lease provides for a four-year term beginning on October 1, 2013, with the option to extend following expiration. The lease is extended to September 30, 2022. The annual rent on the property is approximately \$414,000. We also have a lease agreement for roadway access to the west side entry of the concrete service plant with an unrelated party, which will expire on June 30, 2019, with annual payment of approximately \$15,000. In addition, we have a lease agreement for office space from Mr. Weili He, the Company's Interim Chief Financial Officer, through October 31, 2018, with annual payments of approximately \$24,000.

We have an extensive fleet of 78 transit mounted concrete mixers, 10 pump trucks, and we have access to an additional 11 concrete mixers and 5 pump truck vehicles for lease in Beijing depending on specific project requirements. More than half of the vehicles are equipped with GPS and tracking devices from the plant central dispatch center in order to optimize capacity utilization, production and delivery schedules.

Item 3. Legal Proceedings

From time to time, we may have disputes that arise in the ordinary course of our business. Currently, there are no material legal proceedings to which we are a party, or to which any of our property is subject, that we expect to have a material adverse effect on our financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information**

Our common stock is listed on the NASDAQ Capital Market under the symbol CADC. On February 25, 2013, our common stock was transferred from the NASDAQ Global Market to the NASDAQ Capital Market. The following table sets forth the quarterly high and low sales prices of a share of our common stock as reported by NASDAQ for the periods indicated.

Year	Quarter Ending	High	Low
2017	June 30	\$ 3.80	\$ 2.00
2017	March 31	\$ 3.15	\$ 2.00
2016	December 31	\$ 3.20	\$ 1.50
2016	September 30	\$ 5.68	\$ 2.24
2016	June 30	\$ 3.20	\$ 1.80
2016	March 31	\$ 2.19	\$ 1.46
2015	December 31	\$ 3.19	\$ 1.51
2015	September 30	\$ 4.02	\$ 2.63

Holder of Common Stock

As of September 26, 2017, there were 386 stockholders of record of our common stock.

Dividends

We have never paid dividends on our common stock. While any future dividends will be determined by our directors after consideration of the earnings, financial condition, and other relevant factors, it is currently expected that available cash resources will be utilized in connection with our ongoing operations.

Item 6. Selected Financial Data

Not Applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**Overview**

We are a holding company whose primary business operations are conducted through our wholly-owned subsidiaries Xin Ao Construction Materials, Inc. (BVI-ACM), Beijing Ao Hang Construction Material Technology Co., Ltd. (China-ACMH), and our variable interest entity, Beijing XinAo Concrete Group (Xin Ao). We engage in the production and supply of advanced construction materials for large scale commercial, residential, and infrastructure developments, and are primarily focused on producing and supplying a wide range of advanced ready-mix concrete materials for highly technical, large scale, and environmentally-friendly construction projects that are mainly sold in the People's Republic of China (PRC).

During the year ended June 30, 2017, we supplied materials and provided services to our projects through one ready-mixed concrete plant in Beijing.

Our management believes that we have the ability to capture a greater share of the Beijing market via expanding relationships and networking, signing new contracts, and continually developing market-leading innovative and eco-friendly ready-mix concrete products.

Principal Factors Affecting Our Financial Performance

We believe that the following factors will continue to affect our financial performance:

- **Large Scale Contractor Relationships.** We have contracts with major construction contractors that are constructing key infrastructure, commercial and residential projects. Our sales efforts focus on large-scale projects and large customers which place large recurring orders and present less credit risk to us. For the year ended June 30, 2017, two customers accounted for approximately 12.0% and 9.2% of our sales. Should we lose any large scale customers in the future and are unable to obtain additional customers, our revenues will suffer.
- **Experienced Management.** Management's technical knowledge and business relationships give us the ability to secure major infrastructure projects, which provides us with leverage to acquire less sophisticated operators, increase production volumes, and implement quality standards and environmentally sensitive policies. If there were to be any significant turnover in our senior management, it could deplete the institutional knowledge held by our existing senior management team.
- **Innovation Efforts.** We strive to produce the most technically and scientifically advanced products for our customers and maintain close relationships with Tsinghua University, Xi'an University of Architecture and Technology and Beijing Dongfang Jianyu Institute of Concrete Science & Technology. We entered technical service contracts with these research institutes to further improve our production and products. If our research and development efforts are not sufficient to adapt to the change in technology in the industry, our products may not compete effectively.
- **Competition.** Our competition includes a number of state-owned and large private PRC-based manufacturers and distributors that produce and sell products similar to ours. We compete primarily on the basis of quality, technological innovation and price. Essentially, all of the contracts on which we bid are awarded through a competitive bid process, with award contracts often being made awarded to the lowest bidder, though other factors such as shorter schedules or prior experience with the customer are often just as important. Within our markets, we compete with many national, regional and local state-owned and private construction entities some of which have achieved greater market penetration or have greater financial and other resources than us. In addition, there are a number of larger national companies in our industry that could potentially establish a presence in our markets and compete with us for contracts. If we are unable to compete successfully in our markets, our relative market share and profits could be reduced.

Consolidated Results of Operations

Comparison of the years ended June 30, 2017 and 2016

The following table sets forth key components of our results of operations, in US dollars:

	Year ended June 30,			Percentage Change
	2017	2016	Change	
Total revenue	\$ 45,048,413	\$ 53,678,660	\$ (8,630,247)	(16)%
Total cost of revenue	43,953,477	51,941,202	(7,987,725)	(15)%
Gross profit	1,094,936	1,737,458	(642,522)	(37)%
Provision for doubtful accounts	(3,352,063)	(3,854,014)	(501,951)	(13)%
Selling, general and administrative expenses	(5,669,702)	(6,814,977)	(1,145,275)	(17)%
Research and development expenses	(846,438)	(707,492)	138,946	20%
Loss on sale of assets group	-	(386,906)	(386,906)	(100)%

Edgar Filing: China Advanced Construction Materials Group, Inc - Form 10-K

Impairment loss of long-lived assets	-	(2,624,487)	(2,624,487)	(100)%
Loss from operations	(8,773,267)	(12,650,418)	(3,877,151)	(31)%
Other expense, net	(997,560)	(1,410,621)	(413,061)	(29)%
Loss before provision for income taxes	(9,770,827)	(14,061,039)	(4,290,212)	(31)%
Provision for income taxes	-	(1,744,975)	1,744,975	(100)%
Net loss	\$ (9,770,827)	\$ (15,806,014)	\$ 6,035,187	(38)%

32

Revenue. Our revenue is primarily generated from sales of our advanced ready-mix concrete products. For the year ended June 30, 2017, we generated total revenue of approximately \$45.0 million, as compared to approximately \$53.7 million during the year ended June 30, 2016, a decrease of approximately \$8.6 million, or 16%. The decrease in revenue was principally due to decreased sales volume by 14%, because of the strengthened result of the PRC government's increased inspections of overloaded transportation vehicles, which also affected our sales of our concrete truck transportation services. The decrease in revenue was offset by the increase in our selling price of concrete by 3% during the year ended June 30, 2017, as compared to the same period in 2016. The decrease was also attributable to the 6% depreciation of the Chinese Renminbi against the U.S. Dollar during the year ended June 30, 2017, as compared to the same period in 2016.

Cost of Revenue. Total cost of revenue, which consists of direct labor, rentals, depreciation, other overhead and raw materials, including inbound freight charges, was approximately \$44.0 million for the year ended June 30, 2017, as compared to approximately \$51.9 million for the year ended June 30, 2016, a decrease of approximately \$7.9 million, or 15%. The decrease in cost of revenue was primarily associated with the decrease of production volume and the decrease of unit production costs mainly caused by the decrease of concrete truck rental expenses after the sales of our concrete plant in the eastern suburban area of Beijing and because we had fewer repair expenses for our own trucks in our manufacturing overhead cost during the year ended June 30, 2017, as compared to the same period in 2016.

Gross Profit. Total gross profit was approximately \$1.1 million for the year ended June 30, 2017, as compared to approximately \$1.7 million in gross profit for the year ended June 30, 2016, a decrease of approximately \$0.6 million, which was primarily a result of decreases in sales revenues during the year ended June 30, 2017, as compared to the same period in 2016.

Provision for Doubtful Accounts. We had provision for doubtful accounts charges of approximately \$3.4 million for the year ended June 30, 2017, as compared to approximately \$3.9 million during the year ended June 30, 2016, a decrease of approximately \$0.5 million, or 13%. The decrease was attributable to the fact that fewer accounts receivable became over 720 days past due during the year ended June 30, 2017, as compared to the same period in 2016. At the end of each quarter, we conduct an aging analysis of each customer's arrears to determine whether the allowance for doubtful accounts is adequate. In establishing the allowance for doubtful accounts, we consider historical experience, the economic environment, trends in the construction industry, expected collectability of amounts receivable that are past due, and the expected collectability of overdue receivables. An estimate of doubtful accounts is recorded when collection of the full amount is no longer probable. Known bad debts are written off against the allowance for doubtful accounts when identified. After reviewing individual balances, we provide a provision of 15% for accounts receivable past due more than 180 days but less than one year, 40% for accounts receivable past due from one to two years, 75% for accounts receivable past due beyond two years, 100% for accounts receivable past due beyond three years, plus additional amounts as necessary.

As of June 30, 2017, our accounts receivable aging are as follows:

	Balance	1-90 days	91-180 days	181-360 days	361-720 days	over 720 days	Over 1,080 Days
Accounts and notes receivable	\$ 63,370,426	\$ 9,701,732	\$ 12,078,272	\$ 14,946,835	\$ 21,286,485	\$ 3,939,138	\$ 1,417,964
Allowance for doubtful accounts	(15,827,349)	-	-	(2,242,025)	(8,515,978)	(3,651,382)	(1,417,964)
Accounts and notes receivable,	\$ 47,543,077	\$ 9,701,732	\$ 12,078,272	\$ 12,704,810	\$ 12,770,507	\$ 287,756	\$ -

net

Selling, General and Administrative Expenses. Selling, general and administrative (SG&A) expenses consist of sales commissions, advertising and marketing costs, office rent and expenses, costs associated with staff and support personnel who manage our business activities, and professional fees paid. We incurred selling, general and administrative expenses of approximately \$5.7 million for the year ended June 30, 2017, as compared to approximately \$6.8 million for the year ended June 30, 2016, a decrease of approximately \$1.1 million. The decrease was primarily due to a \$0.3 million decrease in professional fees, \$0.2 million decrease in depreciation, \$0.2 million decrease in stock-based compensation expense, \$0.1 million decrease in office expenses, \$0.1 million decrease in meals and entertainment expenses, \$0.2 million decrease in other various G&A expenses, which was as compared to the year ended June 30, 2016.

Research and Development Expenses. Research and development expenses were approximately \$0.8 million for the year ended June 30, 2017, as compared to \$0.7 million for the same period in 2016. The Company maintained its research and development expenditures during this period as compared to the same period in 2016.

Loss from Sales of Assets Group. Effective February 29, 2016, we terminated an operating lease for our concrete plant in the eastern suburban area of Beijing because the plant was not operating at ideal capacity and we did not anticipate that it would in the foreseeable future. We entered an agreement with a third party to terminate the lease of the concrete plant. Under the agreement, the fair value of net assets of the related operation was determined to be RMB 13.7 million (approximately \$2.1 million), and was settled for RMB 11.2 million (approximately \$1.7 million). We recognized a loss of approximately \$0.4 million from the termination of the lease for the year ended June 30, 2016.

Impairment loss of long-lived assets. During the year ended June 30, 2016, we performed an impairment testing on our long-lived assets and recorded an impairment loss amounting to approximately \$2.6 million which was mainly caused by the decrease in concrete selling prices during the fourth quarter of this year while cost of cement has increased recently which lead to projected gross profits to be lower. We did not have such impairment charges during the year ended June 30, 2017.

Loss from Operations. We had incurred a loss from operations of approximately \$8.8 million and \$12.7 million for the years ended June 30, 2017 and 2016, respectively. This decrease of approximately \$3.9 million in loss from operations was primarily due to a \$0.4 million of loss on sale of asset group and \$2.6 million on impairment loss of long-lived assets during the year ended June 30, 2016 which we did not have such losses during the same period in 2017.

Other (Expense) Income, Net. Our other expense consists of interest income (expense), finance expense and other non-operating income (expense). We had other expense of approximately \$1.0 million during the year ended June 30, 2017, consisting primarily of aged customer deposits that we determined that we are no longer required to repay and recognized as other income accordingly. We earned interest income of approximately \$30,000 and \$0.3 million for the years ended June 30, 2017 and 2016, respectively. Approximately \$0.8 million of interest expense was recorded for each of the years ended June 30, 2017 and 2016, and approximately \$0.6 million and \$0.9 million of finance expense was recorded for the years ended June 30, 2017 and 2016, respectively.

Provision for Income Taxes. We did not incur provision for income taxes for the year ended June 30, 2017, because we had net operating losses on deferred tax assets for which we previously provided 100% allowance to be utilized during the period. We incurred approximately \$1.7 million provision for income for the year ended June 30, 2016 represent 100% allowance that we previously capitalized as deferred tax assets.

Net (Loss) Income. We had net loss of approximately \$9.8 million for the year ended June 30, 2017, as compared to a net loss of approximately \$15.8 million for the year ended June 30, 2016, a positive change in the amount of approximately \$6.0 million. Such change was the result of the combination of the factors as discussed above.

Liquidity and Capital Resources

As of June 30, 2017, we had cash and cash equivalents of approximately \$0.2 million and restricted cash of approximately \$4.2 million, which was held by subsidiaries located outside the U.S. We would be required to accrue and pay U.S. taxes if we were to repatriate these funds. Any company which is registered in mainland PRC must apply to the State Foreign Exchange Administration for approval in order to remit foreign currency to any foreign country. We currently do not intend to repatriate to the U.S. the cash held by our foreign subsidiaries. However, if we were to repatriate funds to the U.S., we would assess the feasibility and plan any transfer in accordance with foreign exchange regulations, taking into account tax consequences. As we conduct all of our operations in the PRC, the restriction on the conversion of cash held in RMB to other currencies should not affect our liquidity.

In assessing our liquidity, we monitor and analyze our cash on-hand and our operating and capital expenditure commitments. Our liquidity needs are to meet our working capital requirements, operating expenses and capital expenditure obligations.

We engage in the production of advanced construction materials for large scale infrastructure, commercial and residential developments. Our business is capital intensive and we are highly leveraged. Debt financing in the form of short-term bank loans, loans from related parties and bank acceptance notes, have been utilized to finance our working capital requirements and capital expenditures. Because of recurring losses, working capital was approximately \$7.5 million as of June 30, 2017, as compared to \$16.4 million as of June 30, 2016. As of June 30, 2017, in addition to cash on-hand and restricted cash, we also have other current assets mainly composed of accounts receivables and prepayments and advances to suppliers.

Although we believe that we can realize our current assets, our ability to repay our current obligations will depend on the future realization of our current assets. Management has considered historical experience, the economic environment, trends in the construction industry, the expected collectability of accounts receivable and the realization of the prepayments on inventory, and provided for an allowance for doubtful accounts as of June 30, 2017. We expect to realize balances net of allowance within the normal operating cycle of a twelve-month period. If we are unable to realize our current assets within the normal twelve-month operating cycle, we may have to consider supplementing our available sources of funds through the following:

Financial support and credit guarantee commitments from our shareholders.

Other available sources of financing from PRC banks and other financial institutions, given our credit history.

Based on the above considerations, management is of the opinion that we have sufficient funds to meet our working capital requirements and debt obligations as they become due. However, there is no assurance that management will be successful in their plans. There are a number of factors that could potentially arise that could undermine the Company's plans, such as changes in the demand for our products, economic conditions, competitive pricing in the concrete-mix industry, our operating results not continuing to deteriorate and our bank and shareholders being able to provide continued financial support.

The following table provides summary information about our net cash flow for financial statement periods presented in this report:

	For the years ended June 30,	
	2017	2016
Net cash provided by operating activities	\$ 1,700,656	\$ 5,865,898

Edgar Filing: China Advanced Construction Materials Group, Inc - Form 10-K

Net cash (used in) provided by investing activities	(210,962)	4,923,410
Net cash used in financing activities	(2,248,081)	(12,307,141)
Effect of foreign currency translation on cash and cash equivalents	(23,904)	(167,112)
Net change in cash and cash equivalents	\$ (782,291)	\$ (1,684,945)

Principal demands for liquidity are for purchase of concrete mixers and pump trucks, working capital and general corporate purposes.

Operating Activities. Net cash provided by operating activities totaled approximately \$1.7 million for the year ended June 30, 2017, which was primarily attributable to net loss of \$9.8 million, which was offset by the adjustments to reconcile to net cash provided by operating activities of \$4.8 million, including adjustments for \$1.2 million of depreciation, \$0.3 million of stock-based compensation expense, and \$3.4 million provision for doubtful accounts as well as \$6.7 million cash inflow from a change in operating assets and liabilities. Net cash from changes in operating assets and liabilities resulted in a net cash inflow, which mainly included cash inflow for reduction in inventories of \$0.4 million, collection of other receivables of \$7.5 million as we increased our efforts on other receivables collections, reduction of prepayments and advances of \$12.3 million as we have already secured enough materials for production, additional accounts payable of \$0.01 million, excluding non-cash offset of \$1.5 million, as we were in waiting for our accounts receivable collection and maturities of notes receivable to repay our vendors, and additional other payables, including related party payables, of \$0.6 million, due to accrued research and development expenses, accrued salary and rental expense payable to our related parties, and was primarily offset by additional accounts and notes receivable of \$13.5 million, excluding a non-cash offset of \$1.5 million, due to delays in the receipt of customer payments, a reduction of customer deposits of approximately \$3.6 million and a reduction of accrued liabilities of \$0.6 million.

Investing Activities. Net cash used in investing activities was approximately \$0.2 million for the year ended June 30, 2017, which was primarily attributable to the purchase of equipment.

Financing Activities. Net cash used in financing activities totaled approximately \$2.2 million for the year ended June 30, 2017, which was primarily attributable to \$20.7 million in cash proceeds from bank loans and bank guarantees, \$30.4 million in proceeds from notes payable and \$0.1 million in borrowing from shareholders, which was offset by \$19.2 million for the repayment of bank loans and bank guarantees, \$34.0 million for the repayment of notes payable, \$0.2 million of change in restricted cash.

Cash and cash equivalents. As of June 30, 2017, we had cash and cash equivalents of approximately \$0.2 million as compared to approximately \$1.0 million as of June 30, 2016. We believe that our cash and revenues from ongoing operations, in addition to the close management of our accounts payable and accounts receivable and our ability to obtain loan financing, will be sufficient to meet our liquidity and capital requirements for all of our ongoing operations. However, we may need to raise additional capital if we undertake any plans for expansion.

Loan Facilities

We had a total of approximately \$17.7 million and \$16.6 million outstanding on loans and credit facilities as of June 30, 2017 and 2016, respectively. See Note 6 to our consolidated financial statements included elsewhere in this report.

Seasonality

Our operations are primarily located in northeastern China, which is extremely cold during the winter months. During such time, we are able to manufacture our advanced ready-mix concrete materials, however many construction projects operate on an abbreviated work schedule, if at all.

Critical Accounting Policies and Estimates

While our significant accounting policies are more fully described in Note 2 to our consolidated financial statements included elsewhere in this report, we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating this management discussion and analysis:

Principles of consolidation

The accompanying consolidated financial statements include the financial statements of China ACM and its wholly owned subsidiaries, BVI-ACM, China-ACMH, and its variable interest entity Xin Ao (collectively, the Company). All significant inter-company transactions and balances have been eliminated in consolidation. In accordance with FASB ASC 810, Consolidation of Variable Interest Entities, variable interest entities, or VIEs, are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes. In accordance with ASC810, the Company concludes that Xin Ao is a VIE and China ACM is the primary beneficiary. The financial statements of Xin Ao is consolidated with China ACM's financial statements.

Use of estimates and assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. The significant estimates and assumptions made in the preparation of the Company's consolidated financial statements include allowance for doubtful accounts, deferred taxes, and prepayments and advances, stock-based compensation, fair value and useful lives of property, plant and equipment. Actual results could be materially different from those estimates.

Revenue recognition

Revenue is realized or realizable and earned when four criteria are met:

- Persuasive evidence of an arrangement exists (the Company considers its sales contracts to be pervasive evidence of an arrangement);
- Delivery has occurred;
- The seller's price to the buyer is fixed or determinable; and
- Collectability of payment is reasonably assured.

The Company sells its concrete products primarily to major local construction companies. Sales agreements are signed with each customer. The agreements list all terms and conditions with the exception of delivery date and quantity, which are evidenced separately in purchase orders. The purchase price of products is fixed in the agreement and customers are not permitted to renegotiate after the contracts have been signed. Each agreement includes a cancellation clause if the Company or the customers breach the contract terms specified in the agreement.

The Company recognizes revenue when title and ownership of the goods are transferred upon shipment to the customer by the Company and collectability of payment is reasonably assured.

The Company includes the shipping and handling fee in both revenue and cost of revenue.

Financial instruments

US GAAP regarding fair value of financial instruments and related fair value measurements define fair value, establish a three-level valuation hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The three levels of inputs are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument;

Level 3 inputs to the valuation methodology are unobservable.

Financial instruments included in current assets and current liabilities are reported in the consolidated balance sheets at face value or cost, which approximate fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rates of interest.

Accounts receivable

We extend unsecured credit to our customers in the normal course of business. Accounts are considered past due after 30 days. In establishing the required allowance for doubtful accounts, management considers historical experience, the economic environment, trends in the construction industry, and the expected collectability of the overdue receivable. Management reviews its accounts receivable each reporting period to determine if the allowance for doubtful accounts is adequate. An estimate for doubtful accounts is recorded when collection of the full amount is no longer probable. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovering is considered remote. We provide a provision of 15% of the allowance for doubtful accounts for accounts receivable balance that are past due more than 180 days but less than one year, 40% of the allowance for

doubtful accounts for accounts receivable past due from one to two years, 75% of the allowance for doubtful accounts for accounts receivable past due beyond two years, 100% of the allowance for doubtful accounts for accounts receivable past due beyond three years, plus additional amount as necessary, which our collection department had determined the collection of the full amount is remote with the approval from our management to provide a 100% provision allowance for doubtful accounts. Our management have continued to evaluate the reasonableness of the valuation allowance policy and update it if necessary.

Accounting for long-lived assets

We classify our long-lived assets into: (i) machinery and equipment; (ii) transportation equipment, (iii) office and equipment; and (iv) buildings and improvements.

Long-lived assets held and used by us are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be fully recoverable. It is possible that these assets could become impaired as a result of technological or other industry changes. If circumstances require a long-lived asset or asset group to be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

If the value of an asset is determined to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less disposition costs.

Due to recurring losses, the deterioration of the concrete-mix industry in Beijing, PRC and because of competitive pricing pressures, we performed an impairment analysis and determined our long-lived assets were impaired. As a result, we recorded an impairment charge of \$2.6 million for the year ended June 30, 2016. These charges were related to the impairment of our transportation equipment, plants and machinery. The loss was determined using Level 3 inputs. There was no impairment charge for the year ended June 30, 2017.

Competitive pricing pressures and changes in interest rates could materially and adversely affect the Company's estimates of future net cash flows to be generated by long-lived assets, and thus could result in future impairment losses.

Income taxes

We account for income taxes in accordance with ASC 740, Income Taxes, which requires us to use the assets and liability method of accounting for income taxes. Under the assets and liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between financial statement carrying amounts and the tax bases of existing assets and liabilities and operating loss and tax credit carry forward. Under this accounting standard, the effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion, or all of, a deferred tax asset will not be realized.

ASC 740-10, Accounting for Uncertainty in Income Taxes, defines uncertainty in income taxes and the evaluation of a tax position as a two-step process. The first step is to determine whether it is more likely than not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50 percent likelihood of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred.

United States federal, state and local income tax returns prior to 2014 are not subject to examination by any applicable tax authorities. PRC tax returns filed in 2017 and prior years are subject to examination by any applicable tax authorities.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our stockholders.

Recently issued accounting pronouncements

Refer to Note 2 of the consolidated financial statements for a discussion of recent accounting standards and pronouncements.

Interest Rate Risk

We are exposed to interest rate risk while we have short-term bank loans outstanding. Although interest rates for our short-term loans are typically fixed for the terms of the loans, the terms are typically twelve months and interest rates are subject to change upon renewal. Interest rates are approximately 4.35% for RMB bank loans with a term of twelve months or less.

Credit Risk

The Company is exposed to credit risk from its cash in bank and fixed deposits, and accounts and notes receivable, other receivables and advances on equipment purchases. The credit risk on cash in bank and fixed deposits is limited because the counterparties are recognized financial institutions. However, the Company's cash in bank deposited in the financial institutions in the PRC is not insured. Accounts and notes receivable, other receivables and advances on inventory purchases are subjected to credit evaluations. An allowance has been made for estimated unrecoverable amounts which have been determined by reference to past default experience and the current economic environment.

Foreign Exchange Risk

The value of the RMB against the U.S. dollar and other currencies is affected by, among other things, changes in the PRC's political and economic conditions. The RMB does not fluctuate with the U.S. dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. In August 2015, the PRC's currency dropped by a cumulative 4.4% against the U.S. dollar on hopes of boosting the domestic economy, making PRC exports cheaper and imports into the PRC more expensive by that amount. The effect on trade can be substantial. The trend of depreciation of RMB continued in the year 2016 and 2017. Compared with the lowest point from RMB versus U.S. dollars in 2016, the RMB has depreciated by 4.3% compared to the exchange rate as of June 30, 2017. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

Because substantially all of our earnings and cash assets are denominated in RMB, but our reporting currency is the U.S. dollar, fluctuations in the exchange rate between the U.S. dollar and the RMB will affect our balance sheet and our earnings per share in U.S. dollars. In addition, appreciation or depreciation in the value of the RMB relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of any dividend we might issue in the future that will be exchanged into U.S. dollars and earnings from, and the value of, any dollar-denominated investments we make in the future.

Very limited hedging transactions are available in the PRC to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may enter into hedging transactions in the future, the availability and effectiveness of these

transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currencies.

Most of the transactions of the Company are settled in RMB and U.S. dollars. In the opinion of the directors, the Company is not exposed to significant foreign currency risk.

Inflation

Inflationary factors, such as increases in the cost of raw materials and overhead costs, could impair our operating results. Inflation has had a material impact on our financial position or results of operations for the year ended June 30, 2017, a high rate of inflation in the future may have a continued adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of sales revenue if the selling prices of our products do not increase with these increased costs.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 8. Financial Statements and Supplementary Data

The full text of our audited consolidated financial statements as of June 30, 2017 and 2016 begins on page F-1 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that are designed to ensure that information that would be required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including to our Chief Executive Officer, Chief Operating Officer and interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15 under the Exchange Act, our management, including our Chief Executive Officer and interim Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2017. Based on that evaluation, we concluded that as of June 30, 2017, our disclosure controls and procedures were not effective to satisfy the objectives for which they are intended due to the material weaknesses in our internal control over financial reporting discussed below.

(b) Management's annual report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Exchange Act defines internal control over financial reporting as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by the Board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and;

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or

procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of June 30, 2017. In making this assessment, management used the 2013 COSO framework set forth in the report entitled Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. The COSO framework summarizes each of the components of a company's internal control system, including (i) the control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication, and (v) monitoring. Our management has implemented and tested our internal control over financial reporting based on these criteria and noted material weaknesses exist as of June 30, 2017. We do not have any full-time accounting personnel who have U.S. GAAP experience, and because we issued restricted shares before the performance obligation performed or specified and did not identify a related party on a timely basis, our management has considered these as material weaknesses and determined that as of June 30, 2017, the internal control over financial reporting was not effective.

In an effort to remedy the material weaknesses in the future, we have commenced to do the following:

Develop a comprehensive training and development plan, for our finance, accounting and internal audit personnel, including our interim Chief Financial Officer, Financial Manager, and others, in the principles and rules of U.S. GAAP, SEC reporting requirements and the application thereof.

Design and implement a program to provide ongoing company-wide training regarding the Company's internal controls, with particular emphasis on our finance and accounting staff.

Implement an internal review process over financial reporting to review all recent accounting pronouncements and to verify that the accounting treatment identified in such report have been fully implemented and confirmed by our internal control department. In the future, we will continue to improve our ongoing review and supervision of our internal control over financial reporting.

Hire an individual that possesses the requisite U.S. GAAP experience and education.

Despite the material weaknesses reported above, our management believes that our consolidated financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

(c) Changes in internal control over financial reporting

During the quarter ended June 30, 2017, there were no changes in our internal control over financial reporting identified in connection with the evaluation performed during the fiscal year covered by this report that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Set forth below are the names of our directors, executive officers and significant employees of our company as of the date of this annual report, their ages, all positions and offices that they hold with us, the period during which they have served as such, and their business experience during at least the last five years.

Name	Age	Position with the Company	Term as Director of Company
Xianfu Han	57	Chairman, Chief Executive Officer and Director	April 2008 Present

Edgar Filing: China Advanced Construction Materials Group, Inc - Form 10-K

Weili He	59	Chief Operating Officer, Interim Chief Financial Officer, Vice Chairman and Director	April 2008	Present
Tao Jin	49	Director	May 2011	Present
Xinyong Gao	44	Director	June 2012	Present
Ken Ren	41	Director	June 2012	Present

41

Name Position with the Company and Principal Occupations

Xianfu Han Mr. Han became our Chairman and Chief Executive Officer on April 29, 2008. From January 2003 to the present, Mr. Han has served as chairman of the board of directors of the Company's subsidiary Beijing Xin Ao Concrete Group, or Xin Ao. His main responsibilities include daily board leadership and strategy initiatives. Since November 2002, Mr. Han has been Chairman at Beijing Tsinghua University Management School's Weilun Club. His responsibilities involved daily management work. From January 2001 to March 2007, Mr. Han acted as Executive Vice Chairman of the Beijing Concrete Association. His primary functions involved public relations and communication with various governmental agencies. Mr. Han is a senior engineer with over 25 years of management experience in the building material industry. He contributed to the draft of the "Local Standard of Mineral Admixtures" regulations and was responsible for the "Research and Application of Green High Performance Concrete" published by the Ministry of Construction. Mr. Han has not held any other public company directorships during the past five years.

Mr. Han graduated in 1995 from the Tsinghua University executive MBA program. Mr. Han received his Bachelor degree in engineering management in 1992 from Northern China University of Technology.

Weili He Mr. He became our Vice-Chairman and Chief Operating Officer on April 29, 2008, and became our Interim Chief Financial Officer on September 21, 2012. His primary responsibility is large client development. From August 2007 to present, Mr. He has worked as Vice Chairman of the board of directors of Xin Ao. From January 2003 to August 2007, Mr. He worked as Chairman of the board of directors of Beijing Xinhang Construction Materials Co., Ltd. His primary responsibilities included strategic planning. Since 2007, Mr. He has served as Vice Chairman of the Beijing Concrete Associations. His primary functions included market research. Mr. He has extensive construction and concrete engineering experience in China and Japan on numerous high profile projects. His primary expertise is plant management and operations. Mr. He received a bachelor's degree in law from Party School of the Central Committee of C.P.C. Mr. He has not held any other public company directorships during the past five years.

Tao Jin Mr. Jin became a member of our Board of Directors on May 4, 2011. Mr. Jin is a partner at Vestasia Limited. Prior to that, he had been a senior partner with the Chinese law firm of Jincheng TongDa & Neal, based in Beijing, where he specialized in mergers and acquisitions, foreign investments in China and capital market transactions. Mr. Jin started his legal practice in 1996 at the New York office of Cleary, Gottlieb, Steen & Hamilton where he represented numerous investment banks and corporations in a variety of mergers and acquisitions and capital markets transactions. Mr. Jin joined Sullivan & Cromwell's Hong Kong office in 1999 where he continued to focus on merger and acquisition transactions. His clients included major multinational corporations, investment banks, PRC corporations and private equity funds. Mr. Jin joined JP Morgan's legal department in 2002 as head legal counsel for mergers and acquisitions and capital market transactions in China. Immediately prior to joining Jincheng TongDa, Mr. Jin was a partner with Jun He Law Offices from 2005 through 2010. Mr. Jin received his B.S. from Beijing University and his J.D. from Columbia University, and is fluent in English and Mandarin. Mr. Jin is admitted to the New York bar. Mr. Jin has not held any other public company directorships during the past five years.

Mr. Jin serves as Chairman of our Compensation Committee and as a member of our Audit Committee and Nominating and Governance Committee.

Xinyong Gao Mr. Gao is currently the Deputy General Manager of Beijing Capital Development Holding (Group) Co., Ltd., a real estate development company based in China, a position he has held since February 2013. From September 2011 to February 2013, he was the Operations Director of the same company. From July 1994

to September 2011, Mr. Gao served in various capacities, most recently the Deputy General Manager, International Engineering Contracting Dept., with Beijing Urban Construction Group Co. Ltd., a China-based construction company which built 41 structures for the 2008 Beijing Olympics. Mr. Gao received his B.A. from Shandong Normal University and his M.B.A. from the Open University of Hong Kong. Mr. Gao has not held any other public company directorships during the past five years.

Mr. Gao serves as Chairman of the Company's Nominating and Governance Committee and as a member of our Audit Committee and Compensation Committee.

Ken Ren Mr. Ren is currently the Chief Financial Officer of China Green Agriculture Inc., a position he has held since 2010. Previously, Mr. Ren served as a capital market analyst for the Federal Home Loan Bank of Des Moines, where he analyzed, priced, and assisted in trading investments and issuing debt, conducted hedges and performed analytical work for the bank's \$20 billion investment portfolio of mortgage whole loan and mortgage backed securities. Before this, Mr. Ren served as a senior investment associate at an asset management subsidiary of Wells Fargo, which provides money management services to institutional clients. Earlier, Mr. Ren worked at Residential Capital LLC, a subsidiary of Ally Financial, where he was responsible for risk analytics and reporting while managing its credit residual portfolio. Mr. Ren received Ph.D. in operations research in 2006, and M.S. in computational finance in 2004, both from Purdue University, West Lafayette. Mr. Ren has not held any other public company directorships during the past five years.

Mr. Ren serves as Chairman of the Company's Audit Committee and as a member of our Compensation Committee and Nominating and Governance Committee.

All directors of our company hold office until the next annual meeting of our shareholders or until their successors have been elected and qualified. The executive officers of our company are appointed by the Board and hold office until their death, resignation or removal from office.

Summary of Qualifications of Current Directors

Set forth below is a summary of some of the specific qualifications, attributes, skills and experiences of our directors which we believe qualify them to serve on our Board. For more detailed information, please refer to the biographical information for each director set forth above.

Xianfu Han. Mr. Han has extensive senior management experience in the industry in which we operate, having served as our Chief Executive Officer and Chairman since September 2008 and as the Chairman of Xin Ao since 2003. Mr. Han has over 25 years of management experience in the building material industry, and has worked extensively with various governmental agencies on behalf of our industry in Beijing.

Weili He. Mr. He has extensive experience in the concrete and construction industry, and has specific expertise in strategic planning and plant management and operation.

Tao Jin. Mr. Jin brings to the Board extensive legal and transactional capital markets experience and has worked extensively with both U.S. and PRC based companies, and has a high level of both legal and financial literacy and sophistication.

Xinyong Gao. Mr. Gao brings to the Board extensive experience in the construction industry, both within China and internationally, and years of service in various senior management positions.

Ken Ren. Mr. Ren brings to the Board extensive experience in finance and banking and has a high level of financial literacy and sophistication.

Family Relationships

There is no family relationship among any of our officers or directors.

Involvement in Certain Legal Proceedings

To the best of our knowledge, none of our directors or executive officers were involved in any legal proceedings during the last 10 years as described in Item 401(f) of Regulation S-K.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires directors, executive officers and stockholders who own more than ten percent of the outstanding Common Stock of the Company to file with the SEC and Nasdaq reports of ownership and changes in ownership of voting securities of the Company and to furnish copies of such reports to us.

Based solely on a review of Forms 3, 4 and 5 (including amendments to such form) furnished to the Company during and with respect to the year ended June 30, 2017 and written representations from certain persons that no other reports were required for them, we believe that each of the Company's directors, officers and more than ten-percent stockholders filed all such required forms on a timely basis.

Code of Ethics

The Board has adopted a Code of Conduct and Ethics that applies to the Company's directors, officers and employees. A copy of this policy is available via our website at www.China-ACM.com. Printed copies of our Code of Ethics may be obtained, without charge, by contacting the Corporate Secretary, China Advanced Construction Materials Group, Inc., Yingu Plaza, 9 Beisihuanxi Road, Suite 1708, Haidian District, Beijing 100080 PRC.

Audit Committee

Our audit committee consists of Mr. Ren, Mr. Jin and Mr. Gao, each of whom is independent as that term is defined under the Nasdaq listing standards. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. Mr. Ren serves as our audit committee financial expert as that term is defined by Item 407 of Regulation S-K of the Exchange Act. The audit committee is responsible for, among other things:

- selecting our independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by our independent auditors;
- reviewing with our independent auditors any audit problems or difficulties and management's response;
- reviewing and approving all proposed related-party transactions, as defined in Item 404 of Regulation S-K under the Securities Act of 1933, as amended;
- discussing the annual audited financial statements with management and our independent auditors;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of significant internal control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- meeting separately and periodically with management and our internal and independent auditors; and
- reporting to the Board; and
- such other matters that are specifically delegated to our audit committee by the Board from time to time.

Item 11. Executive Compensation

Summary Compensation Table Fiscal Years Ended June 30, 2017 and 2016

The following table sets forth information concerning all cash and non-cash compensation awarded to, earned by or paid to our principal executive officer and our other most highly paid executive officer (the named executive officers) for services rendered in all capacities during the noted periods. No other executive officers received total annual salary and bonus compensation in excess of \$100,000 during the fiscal years ended June 30, 2017 and 2016.

Name and Principal Position	Year Ended June 30	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation Earnings (\$)	Non-Qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Xianfu Han Chairman and CEO	2017	300,000							300,000
	2016	300,000	-	-	-	-	-	-	300,000
Weili He, Vice Chairman, interim CFO and COO	2017	300,000							300,000
	2016	300,000	-	-	-	-	-	-	300,000

Employment Agreements

In connection with the reverse acquisition of BVI-ACM on April 29, 2008, Mr. Han was elected as our Chairman and Chief Executive Officer effective immediately. In January 2011, we entered into a three-year Employment Agreement with Mr. Han pursuant to which he receives an annual salary of \$140,000 for service as our Chief Executive Officer. The initial term of three years as set forth in the agreement expired and the Company and Mr. Han renewed the agreement for another three years from July 1, 2014 to June 30, 2017 on the same terms except for the increased annual salary to \$300,000. The Company and Mr. Han renewed the agreement for another three years from July 1, 2017 to June 30, 2020 on the same terms except for the increased annual salary to \$360,000.

Upon termination of Mr. Han's employment because of death, disability or for cause, the Company will pay or provide to Mr. Han or his estate, as the case may be (i) any unpaid base salary and any accrued vacation through the date of termination; (ii) any unpaid annual bonus accrued with respect to the fiscal year ending on or preceding the date of termination; (iii) reimbursement for any unreimbursed expenses properly incurred through the date of termination; and (iv) all other payments or benefits to which Mr. Han may be entitled under the terms of any applicable employee benefit plan, program or arrangement.

Upon the termination of Mr. Han's employment by the Company without cause, the Company will pay or provide to Mr. Han (i) all amounts due as if Mr. Han's employment were terminated because of death, disability or for cause, and (ii) subject to Mr. Han's execution (and non-revocation) of a general release of claims against the Company and its affiliates in a form reasonably requested by the Company, (a) continued payment of his base salary for two months after termination, payable in accordance with the regular payroll practices of the Company, but off the payroll; and (b) payment of his cost of continued medical coverage for two (2) months after termination (subject to his co-payment of the costs in the same proportion as such costs were shared immediately prior to the date of termination). Payments provided under this Section 6(d) shall be in lieu of any termination or severance payments or benefits for which Mr. Han may be eligible under any of the plans, policies or programs of the Company.

In January 2011, we also entered into a three year Employment Agreement with Mr. He pursuant to which he receives an annual salary of \$109,169 for service as our Chief Operating Officer. The initial term of three years as set forth in

the agreement expired and the Company and Mr. He renewed the agreement for another three years from July 1, 2014 to June 30, 2017 on the same terms except for the increased annual salary to \$300,000. The Company and Mr. He renewed the agreement for another three years from July 1, 2017 to June 30, 2020 on the same terms except for the increased annual salary to \$360,000.

Upon termination of Mr. He's employment because of death, disability or for cause, the Company will pay or provide to Mr. He or his estate, as the case may be (i) any unpaid base salary and any accrued vacation through the date of termination; (ii) any unpaid annual bonus accrued with respect to the fiscal year ending on or preceding the date of termination; (iii) reimbursement for any unreimbursed expenses properly incurred through the date of termination; and (iv) all other payments or benefits to which Mr. He may be entitled under the terms of any applicable employee benefit plan, program or arrangement.

Upon the termination of Mr. He's employment by the Company without cause, the Company will pay or provide to Mr. He (i) all amounts due as if Mr. He's employment were terminated because of death, disability or for cause, and (ii) subject to Mr. He's execution (and non-revocation) of a general release of claims against the Company and its affiliates in a form reasonably requested by the Company, (a) continued payment of his base salary for two months after termination, payable in accordance with the regular payroll practices of the Company, but off the payroll; and (b) payment of his cost of continued medical coverage for two (2) months after termination (subject to his co-payment of the costs in the same proportion as such costs were shared immediately prior to the date of termination). Payments provided under this Section 6(d) shall be in lieu of any termination or severance payments or benefits for which Mr. He may be eligible under any of the plans, policies or programs of the Company.

Cash Compensation for Executive Officers

On December 25, 2014, the compensation committee of the Board of Director of the Company, approved (i) a new cash compensation plan for the Company's executive officers, effective immediately.

Pursuant to the Cash Plan, the compensation committee determined that (i) Mr. Xianfu Han, is entitled to a base salary of \$300,000, (ii) Mr. Weili He, is entitled to a base salary of \$300,000. The Cash Plan also provided for aggregate cash bonuses (the Cash Bonus) payable to (i) Mr. Han in the amount of up to 160% of his base salary, or \$480,000; and (ii) Mr. He in the amount of up to 100% of his base salary, or \$300,000. According to the Cash Plan, 80% of the Cash Bonus is payable at the end of each quarter of the year ending June 30, 2017 (the Quarterly Bonuses), starting from the end of the second quarter ended December 31, 2014, and 20% of the Cash bonus is payable at the end of the fiscal year ending June 30, 2017 (the Year-End Bonus), if the Company achieves certain revenue and operating income targets set for each period. For the payment of the Quarterly Bonuses, both the revenue and operating income targets must be achieved for that quarter. In addition, total annual cash bonus pool should be no more than 10% of operating income or revenue, or \$2 million for the full fiscal year, whichever is less.

With respect to the Year-End Bonus, the Cash Plan sets forth three target levels of revenue and operating income targets for the year ending June 30, 2017: (i) the Base Target, (ii) the Threshold Target, which equals 90% of the revenue and operating income targets of the Base Target, and (iii) the Maximum Target, which equals 110% of the revenue and operating income targets of the Base Target. If the Base Target is achieved, the full Year-End Bonus is payable; if the Threshold Target is achieved, 70% of the Year-End Bonus is payable; and if the Maximum Target is achieved, 150% of the Year-End Bonus is payable. Additionally, with respect to each of these three target levels, if either revenue or income target has been met, but not both, for the full year, the Year-End Bonus is payable in half.

Outstanding Equity Awards at Fiscal Year End June 30, 2017

None.

Director Compensation

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) ⁽¹⁾	Option Awards (\$) ⁽¹⁾	Total (\$)
Tao Jin	\$25,000			\$25,000
Xinyong Gao	\$25,000			\$25,000
Ken Ren	\$25,000			\$25,000

⁽¹⁾ The amounts in these columns represent the compensation cost of shares of restricted stock awarded by the Company during the fiscal year, except that these amounts do not include any estimate of forfeitures. The aggregate grant date fair value of restricted stock awards granted were determined in accordance with Financial Accounting Standard Board Accounting Standards Codification Topic 718 (formerly SFAS123(R)) and are recognized as compensation cost over the requisite service period.

On May 4, 2011, we entered into a director agreement with Tao Jin pursuant to which he is entitled to receive, annually, a fee of \$25,000 in cash and 833 (10,000 on a pre-split basis) in restricted shares of the Company's common stock, which vested in four equal quarterly installments.

On June 12, 2012, we entered into a director agreement with Xinyong Gao pursuant to which he is entitled to receive, annually, a fee of \$25,000 in cash and 833 in restricted shares of the Company's common stock, which vested in four equal quarterly installments.

On June 12, 2012, we entered into a director agreement with Ken Ren pursuant to which he is entitled to receive, annually, a fee of \$25,000 in cash and 833 in restricted shares of the Company's common stock, which vested in four equal quarterly installments.

As of the date of this report none of the restricted shares noted above have been issued to the independent directors.

Changes in Control

There are no compensatory plans or arrangements with respect to any officer, director, manager or other executive which would in any way result in payments to any such person because of his or her resignation, retirement, or other termination of employment with the Company, or any change in control of the Company, or a change in the person's responsibilities following a change of control of the Company.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth, as of September 26, 2017, certain information with respect to the beneficial ownership of our common shares by each shareholder known by us to be the beneficial owner of more than 5% of our common shares, as well as by each of our current directors and executive officers as a group. Each person has sole voting and investment power with respect to the shares of common stock, except as otherwise indicated. Beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934 and does not necessarily bear on the economic incidents of ownership or the rights to transfer the shares described below. Unless otherwise indicated, (a) each stockholder has sole voting power and dispositive power with respect to the indicated shares and (b) the address of each stockholder who is a director or executive officer is c/o Yingu Plaza, #1708, 9 Beisihuanxi Road, Haidian District, Beijing 100080, China.

Name & Address of Beneficial Owner	Office, If Any Officers and Directors	Amount and Nature of Beneficial Ownership	Percent of Class ⁽¹⁾ ⁽²⁾
Xianfu Han ⁽³⁾	Chairman and CEO	533,378	22.3%
Weili He ⁽⁴⁾	Vice Chairman, COO and Interim CFO	375,622	15.7%
Ken Ren ⁽⁵⁾	Director	10,000	*
Tao Jin ⁽⁶⁾	Director	--	--
Xinyong Gao ⁽⁷⁾	Director	10,000	*
All officers and directors as a group (5 persons named above)		929,000	38.9%

*Less than 1%

⁽¹⁾As of the close of business on September 26, 2017, there were 2,387,658 shares of our common stock outstanding.

⁽²⁾In determining beneficial ownership of the common stock, the number of shares shown includes shares which the beneficial owner may acquire within 60 days upon exercise or conversion of convertible securities, warrants or options. In accordance with Rule 13d-3 in determining the percentage of common stock owned by a person on September 26, 2017 (a) the numerator is the number of shares of the class beneficially owned by such person, including shares which the beneficial owner may acquire within 60 days upon conversion or exercise of the warrants and other convertible securities, and (b) the denominator is the sum of (i) the total shares of that class outstanding on

September 26, 2017, and (ii) the total number of shares that the beneficial owner may acquire upon conversion or exercise of other securities. Unless otherwise stated, each beneficial owner has sole power to vote and dispose of the shares.

⁽³⁾ On June 11, 2008, Mr. Han entered into a Securities Escrow Agreement by and among the investors to the private placement that closed on June 11, 2008, and American Stock Transfer & Trust Company, or AST, whereby 291,667 shares (3,500,000 shares pre-reverse split) of the Company's common stock owned by Mr. Han were placed into escrow, with AST appointed as the escrow agent. The 291,667 shares were thereafter transferred into the name of AST and are to be held in escrow and released to Mr. Han if the Company does, or to the investors if the Company does not, meet certain performance milestones described in the Securities Escrow Agreement. Mr. Han maintains voting power over all 291,667 shares until such time as any such shares are transferred to the investors, at which time, such transferred shares will be beneficially owned by such investors.

(4) On June 11, 2008, Mr. He entered into a Securities Escrow Agreement by and among the investors to the private placement that closed on June 11, 2008, and American Stock Transfer & Trust Company, or AST, whereby 166,667 shares (2,000,000 shares pre-reverse split) of the Company's common stock owned by Mr. He were placed into escrow, with AST appointed as the escrow agent. The 166,667 shares were thereafter transferred into the name of AST and are to be held in escrow and released to Mr. He if the Company does, or to the investors if the Company does not, meet certain performance milestones described in the Securities Escrow Agreement. Mr. He maintains voting power over all 166,667 shares until such time as any such shares are transferred to the investors, at which time, such transferred shares will be beneficially owned by such investors.

(5) Mr. Ren is entitled to receive 833 restricted shares of the Company's common stock per annum under his director agreement but as of the date hereof such shares have not yet been issued.

(6) Mr. Jin is entitled to receive 833 restricted shares of the Company's common stock per annum under his director agreement but as of the date hereof such shares have not yet been issued.

(7) Mr. Gao is entitled to receive 833 restricted shares of the Company's common stock per annum under his director agreement but as of the date hereof such shares have not yet been issued.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Transactions with Related Party

Mr. Xianfu Han, and Mr. Weili He, the Company's shareholders and officers, are holding positions as president and director of Ningbo Lianlv Investment Ltd., respectively. This company owns 99% shares of Beijing Lianlv Technical Group Ltd. (Beijing Lianlv), the Company's supplier. As of June 30, 2017 and 2016, the Company prepaid \$6,996,400 and \$1,136,546 to Beijing Lianlv for inventory purchases, respectively.

Transactions with Related Persons

Except as discussed below, since the beginning of the 2012, there have not been any transaction, nor is there any currently proposed transaction, in which we were or are to be a participant and the amount involved exceeded or exceeds \$120,000, and in which any related person had or will have a direct or indirect material interest (other than compensation described under Executive Compensation).

Mr. Xianfu Han, the Company's Chief Executive Officer and Mr. Weili He, the Company's Chief Operating Officer and interim Chief Financial Officer, had advanced funds to BVI-ACM, for working capital purposes. The loans are non-interest bearing, unsecured, and are payable in cash on demand. On December 2, 2014, the Board authorized the Company to issue 92,897 and 81,968 shares of common stock of the Company (collectively, the Shares), to each of Mr. Xianfu Han and Mr. Weili He, at \$5.49 per share, the closing bid price quoted by Nasdaq on December 1, 2014. The Shares offset the payables advanced by the two executives in the amount of approximately \$510,000 and \$450,000, respectively, to the Company. Payable balance also include their annual salary of \$300,000. Therefore, as of June 30, 2017, approximately \$1,071,000 and \$1,191,000 remained payable to Mr. Han and Mr. He, respectively.

Certain short-term bank loans and bank guarantees are guaranteed by our officers and their spouse, see note 6 to the consolidated financial statements.

The Company has a lease agreement to lease office space from Mr. Weili He, the Company's Interim Chief Financial Officer, through October 31, 2018, which annual payments of approximately \$24,000.

Independence of the Board of Directors

Our Board has determined that the majority of the Board is comprised of independent directors within the meaning of applicable Nasdaq listing standards relating to Board composition and Section 301 of the Sarbanes-Oxley Act of 2002. Our independent directors are Mr. Jin, Mr. Ren and Mr. Gao.

Promoters and Certain Control Persons

We did not have any promoters at any time during the past five fiscal years.

Except as set forth in our discussion above, none of our directors, director nominees or executive officers has been involved in any transactions with us or any of our directors, executive officers, affiliates or associates which are required to be disclosed pursuant to the rules and regulations of the SEC.

Item 14. Principal Accounting Fees and Services

The following are the fees billed to us by our auditors during fiscal years ended June 30, 2017 and 2016:

	Years Ended	
	June 30, 2017	June 30, 2016
Audit Fees	\$ 172,000	\$ 133,000
Audit related fees	-	-
Tax fees	-	-
All Other Fees	-	-
Total	\$ 172,000	\$ 133,000

Total fees billed to us by Friedman, LLP was \$172,000 and \$88,000 during fiscal years ended June 30, 2017 and 2016, respectively. Total fees billed to us by Kabani & Company, Inc. was \$45,000 during the fiscal year ended June 30, 2016.

Audit Fees consist of the aggregate fees billed for professional services rendered for the audit of our annual financial statements and the reviews of the financial statements included in our Forms 10-Q and for any other services that were normally provided by our independent auditor, respectively, in connection with our statutory and regulatory filings or engagements.

Audit Related Fees consist of the aggregate fees billed for professional services rendered for assurance and related services that were reasonably related to the performance of the audit or review of our financial statements and were not otherwise included in Audit Fees.

Tax Fees consist of the aggregate fees billed for professional services rendered for tax compliance, tax advice and tax planning. Included in such Tax Fees were fees for preparation of our tax returns and consultancy and advice on other tax planning matters.

All Other Fees consist of the aggregate fees billed for products and services provided by our independent and not otherwise included in Audit Fees, Audit Related Fees or Tax Fees. Included in such Other Fees were fees for services rendered by our independent auditor in connection with our private and public offerings conducted during such periods.

Our Audit Committee has considered whether the provision of the non-audit services described above is compatible with maintaining auditor independence and determined that such services are appropriate. Before auditors are engaged to provide us audit or non-audit services, such engagement is (without exception, required to be) approved by the Audit Committee of the Board.

Pre-Approval Policies and Procedures

Under the Sarbanes-Oxley Act of 2002, all audit and non-audit services performed by our auditors must be approved in advance by our Audit Committee to assure that such services do not impair the auditors' independence from us. In

accordance with its policies and procedures, the Audit Committee pre-approved the audit service performed by Friedman LLP for our consolidated financial statements as of and for the year ended June 30, 2017.

The Company's principal accountant, Friedman LLP, did not engage any other persons or firms other than the principal accountant's full-time, permanent employees.

PART IV**Item 15. Exhibits, Financial Statement Schedules**

(a) Financial Statements

- (1) Financial statements for the Company are listed in the index under Item 8 of this document
- (2) All financial statement schedules are omitted because they are not applicable, not material or the required information is shown in the financial statements or notes thereto.

Exhibit Index	Description of Document	Filed Herewith	Incorporated by Reference To:
<u>2.1</u>	<u>Agreement and Plan of Merger, dated as of October 24, 2011, by and among the Company, Novel Gain Holdings Limited, CACMG Acquisition, Inc., Mr. Xianfu Han and Mr. Weili He.</u>		<u>Exhibit 2.1 of the Company's Current Report on Form 8-K filed on October 24, 2011.</u>
<u>3.1</u>	<u>Articles of Incorporation of the Registrant as filed with the Secretary of State of Nevada on July 25, 2013, and made effective on August 1, 2013, as amended to date.</u>		<u>Exhibits 3.2 the Registrant's Current Report on Form 8-K filed on August 2, 2013.</u>
<u>3.2</u>	<u>Bylaws of the registrant.</u>		<u>Exhibits 3.3 the Registrant's Current Report on Form 8-K filed on August 2, 2013.</u>
<u>4.1</u>	<u>Lock-Up Agreement amongst Registrant, Xianfu Han and Weili He dated June 11, 2008.</u>		<u>Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on June 13, 2008.</u>
<u>10.1</u>	<u>Employment Agreement with Weili He dated December 8, 2014</u>		<u>Exhibit 10.1 to the Registrant's Annual Report on Form 10-K filed on September 25, 2015.</u>
<u>10.2</u>	<u>Employment Agreement with Xianfu Han dated December 8, 2014</u>		<u>Exhibit 10.2 to the Registrant's Annual Report on Form 10-K filed on September 25, 2015.</u>
<u>10.3</u>	<u>Form of Director Agreement</u>		<u>Exhibit 10.3 to the Registrant's Annual Report on Form 10-K filed on September 23, 2014.</u>
<u>10.4</u>	<u>Subscription Escrow Agreement between the Registrant, Maxim Group, LLC and American Stock Transfer & Trust Company as Escrow Agent dated June 11, 2008.</u>		<u>Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 13, 2008.</u>
<u>10.5</u>	<u>Make Good Escrow Agreement by and among the Registrant, the Investors, the Investor Representative, Xianfu Han and Weili He, and American Stock Transfer & Trust Company as Escrow Agent, dated June 11, 2008</u>		<u>Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on June 13, 2008.</u>

10.6 Form of Common Stock Purchase Warrant Exhibit 10.3 to the Registrant's Current Report
on Form 8-K filed on June 13, 2008.

10.7 Form of Placement Agent Stock Purchase
Warrant Exhibit 10.4 to the Registrant's Current Report
on Form 8-K filed on June 13, 2008.

<u>10.8</u>	<u>Escrow Agreement for IR and Dividends by and among the Registrant, the Investor Representative, Maxim Group, LLC and Anslow + Jaclin, LLP as Escrow Agent</u>		<u>Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on June 13, 2008.</u>
<u>10.9</u>	<u>2009 Equity Incentive Plan, dated as of June 19, 2009, as amended on June 29, 2015</u>		<u>(1)Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 25, 2009.</u> <u>(2)Appendix B to the Registrant's Definitive Proxy Statement on Schedule 14A filed on May 27, 2015</u>
<u>10.10</u>	<u>Termination of Agreement and Plan of Merger dated July 9, 2012</u>		<u>Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 11, 2012.</u>
<u>21.1</u>	<u>List of Subsidiaries</u>		<u>Exhibit 21.1 to the Registrant's Annual Report on Form 10-K filed on September 25, 2013.</u>
<u>23.1</u>	<u>Consent of Friedman LLP, Independent Registered Public Accounting Firm</u>	<input checked="" type="checkbox"/>	
<u>31.1</u>	<u>Rule 13a-14(a)/15d-14(a) Certification Principal Executive Officer</u>	<input checked="" type="checkbox"/>	
<u>31.2</u>	<u>Rule 13a-14(a)/15d-14(a) Certification Principal Financial Officer</u>	<input checked="" type="checkbox"/>	
<u>32.1</u>	<u>Certification of Principal Executive Officers, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	<input checked="" type="checkbox"/>	
<u>101.INS</u>	<u>XBRL Instance Document</u>		
<u>101.SCH</u>	<u>XBRL Taxonomy Extension Schema Document</u>		
<u>101.CAL</u>	<u>XBRL Taxonomy Extension Calculation Linkbase Document</u>		
<u>101.DEF</u>	<u>XBRL Taxonomy Extension Definition Linkbase Document</u>		
<u>101.LAB</u>	<u>XBRL Taxonomy Extension Label Linkbase Document</u>		
<u>101.PRE</u>	<u>XBRL Taxonomy Extension Presentation Linkbase Document</u>		

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	PAGE
Report of independent Registered Public Accounting Firm	F-1
Consolidated Financial Statements	
Consolidated Balance Sheets	F-2
Consolidated Statements of Operation and Comprehensive Loss	F-3
Consolidated Statements of Shareholders' Equity	F-4
Consolidated Statements of Cash Flows	F-5
Notes to the Consolidated Financial Statements	F-6

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
China Advanced Construction Materials Group, Inc.

We have audited the accompanying consolidated balance sheets of China Advanced Construction Materials Group, Inc. and Subsidiaries (collectively, the Company) as of June 30, 2017 and 2016, and the related consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Advanced Construction Materials Group, Inc. and Subsidiaries as of June 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Friedman LLP

New York, New York
September 28, 2017

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2017	June 30, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 224,679	\$ 1,006,970
Restricted cash	4,208,765	4,097,621
Accounts receivable, net	47,543,077	40,288,552
Inventories	626,738	1,023,471
Other receivables, net	240,123	7,093,030
Prepayments and advances	16,894,781	36,073,153
Prepayments - related party	6,996,400	1,136,546
Total current assets	76,734,563	90,719,343
PROPERTY PLANT AND EQUIPMENT, net	3,644,203	4,709,794
Total assets	\$ 80,378,766	\$ 95,429,137
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short term loans, banks and bank guarantees	\$ 17,700,720	\$ 16,555,440
Notes payable	14,013,070	18,060,480
Accounts payable	29,081,789	31,234,091
Customer deposits	614,558	4,272,144
Other payables	4,098,772	600,205
Other payables - shareholders	2,261,766	1,491,125
Accrued liabilities	1,352,750	1,992,214
Taxes payable	103,419	95,708
Total current liabilities	69,226,844	74,301,407
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock \$0.001 par value, 1,000,000 shares authorized, no shares issued or outstanding	-	-
Common stock, \$0.001 par value, 74,000,000 shares authorized, 2,387,658 and 2,180,799 shares issued and outstanding as of June 30, 2017 and 2016, respectively	2,388	2,181
Additional paid-in-capital	38,662,377	38,373,584
Accumulated deficit	(40,975,658)	(31,204,831)
Statutory reserves	6,248,092	6,248,357
Accumulated other comprehensive income	7,214,723	7,708,439
Total shareholders' equity	11,151,922	21,127,730
Total liabilities and shareholders' equity	\$ 80,378,766	\$ 95,429,137

The accompanying notes are an integral part of these consolidated financial statements.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	For the years ended June 30,	
	2017	2016
REVENUE	\$ 45,048,413	\$ 53,678,660
COST OF REVENUE	43,953,477	51,941,202
GROSS PROFIT	1,094,936	1,737,458
PROVISION FOR DOUBTFUL ACCOUNTS	(3,352,063)	(3,854,014)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	(5,669,702)	(6,814,977)
RESEARCH AND DEVELOPMENT EXPENSES	(846,438)	(707,492)
LOSS ON SALE OF ASSET GROUP	-	(386,906)
IMPAIRMENT LOSS OF LONG-LIVED ASSETS	-	(2,624,487)
LOSS FROM OPERATIONS	(8,773,267)	(12,650,418)
OTHER (EXPENSE) INCOME, NET		
Other income, net	407,452	20,920
Interest income	30,464	268,088
Interest expense	(830,978)	(838,323)
Finance expense	(604,498)	(861,306)
TOTAL OTHER EXPENSE, NET	(997,560)	(1,410,621)
LOSS BEFORE PROVISION FOR INCOME TAXES	(9,770,827)	(14,061,039)
PROVISION FOR INCOME TAXES	-	(1,744,975)
NET LOSS	\$ (9,770,827)	\$ (15,806,014)
COMPREHENSIVE LOSS		
Net loss	\$ (9,770,827)	\$ (15,806,014)
Other comprehensive loss - foreign currency translation loss	(493,716)	(2,766,786)
COMPREHENSIVE LOSS	\$ (10,264,543)	\$ (18,572,800)
LOSS PER COMMON SHARE		
Weighted average number of shares:		
Basic	2,266,826	2,180,799
Diluted	2,266,826	2,180,799
Loss per share:		
Basic	\$ (4.31)	\$ (7.25)
Diluted	\$ (4.31)	\$ (7.25)

The accompanying notes are an integral part of these consolidated financial statements.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common stock Number of shares	Par amount	Additional Paid-in capital	Retained earnings (Accumulated deficit) Unrestricted	Statutory reserves	Accumulated other comprehensive income	Total
BALANCE, June 30, 2015	2,180,799	\$ 2,181	\$ 38,373,584	\$ (15,398,817)	\$ 6,248,357	\$ 10,475,225	\$ 39,700,530
Net loss	-	-	-	(15,806,014)	-	-	(15,806,014)
Foreign currency translation loss	-	-	-	-	-	(2,766,786)	(2,766,786)
BALANCE, June 30, 2016	2,180,799	\$ 2,181	\$ 38,373,584	\$ (31,204,831)	\$ 6,248,357	\$ 7,708,439	\$ 21,127,730
Common stock issued for services without performance commitment	106,859	107	(107)	-	-	-	-
Common stock issued for compensation	100,000	100	288,900	-	-	-	289,000
Net loss	-	-	-	(9,770,827)	-	-	(9,770,827)
Dissolution of subsidiaries	-	-	-	-	(265)	-	(265)
Foreign currency translation loss	-	-	-	-	-	(493,716)	(493,716)
BALANCE, June 30, 2017	2,387,658	\$ 2,388	\$ 38,662,377	\$ (40,975,658)	\$ 6,248,092	\$ 7,214,723	\$ 11,151,922

The accompanying notes are an integral part of these consolidated financial statements.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (9,770,827)	\$ (15,806,014)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,178,427	1,953,087
Stock-based compensation expense	289,000	498,604
Deferred tax provision	-	1,744,952
Provision for doubtful accounts	3,352,063	3,854,014
Loss on sale of Asset Group	-	386,906
Impairment loss of long-lived assets	-	2,624,487
Changes in operating assets and liabilities		
Accounts receivable, net	(13,544,355)	(31,302,306)
Inventories	374,676	(60,840)
Other receivables, net	7,534,134	660,051
Prepayments and advances	18,161,510	2,707,987
Prepayments - related party	(5,856,413)	2,626,699
Accounts payable	11,783	33,108,245
Customer deposits	(3,556,647)	3,194,095
Other payables	3,493,637	(1,150,691)
Other payables - shareholders	623,924	600,000
Accrued liabilities	(599,831)	139,943
Taxes payable	9,575	86,679
Net cash provided by operating activities	1,700,656	5,865,898
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemptions of short-term investments	-	5,131,523
Purchases of property, plant and equipment	(210,962)	(208,113)
Net cash (used in) provided by investing activities	(210,962)	4,923,410
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short term loans, banks and bank guarantees	20,706,132	17,106,980
Repayments of short term loans, banks and bank guarantees	(19,237,612)	(25,038,398)
Proceeds from notes payable	30,398,364	50,854,386
Repayments of notes payable	(34,069,664)	(61,196,333)
Payable to shareholders, net	146,611	207,447
Principal payments on capital lease obligations	-	(516,534)
Change in restricted cash, net	(191,912)	6,275,311
Net cash used in financing activities	(2,248,081)	(12,307,141)
EFFECTS OF EXCHANGE RATE CHANGE IN CASH AND CASH EQUIVALENTS		
	(23,904)	(167,112)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(782,291)	(1,684,945)

Edgar Filing: China Advanced Construction Materials Group, Inc - Form 10-K

CASH AND CASH EQUIVALENTS, beginning of year	1,006,970	2,691,915
CASH AND CASH EQUIVALENTS, end of year	\$ 224,679	\$ 1,006,970
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest expense	\$ 825,772	\$ 793,162
Cash paid for income tax	\$ -	\$ -
NON-CASH TRANSACTIONS OF INVESTING AND FINANCING ACTIVITIES:		
Amounts from disposal of equipment yet to collect	\$	\$ 1,741,802
Disposal of equipment offset with other payables	\$	\$ 822,746
Prepayment reclassified to other receivables	\$ -	\$ 5,350,597
Capital lease obligations offset with accounts receivable	\$ -	\$ 233,277
Capital lease obligations offset with prepayments	\$ -	\$ 198,577
Capital lease obligations offset with advances on equipment purchases	\$ -	\$ 466,554
OTHER NON-CASH TRANSACTIONS:		
Accounts receivable offset with accounts payable upon execution of tri-party agreements	\$ 1,535,126	\$ 2,097,952

The accompanying notes are an integral part of these consolidated financial statements.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Organization and description of business

China Advanced Construction Materials Group, Inc. (CADC Delaware) was incorporated in the State of Delaware on February 15, 2007. CADC Delaware, through its 100% owned subsidiaries and its variable interest entities (VIEs), is engaged in producing general ready-mix concrete, customized mechanical refining concrete, and other concrete-related products that are mainly sold in the People's Republic of China (the PRC). CADC Delaware has a wholly-owned subsidiary in the British Virgin Islands, Xin Ao Construction Materials, Inc. (BVI-ACM), which is a holding company with no operations. BVI-ACM has a wholly-owned foreign subsidiary, Beijing Ao Hang Construction Material Technology Co., Ltd. (China-ACMH), and China-ACMH has contractual agreements with Beijing XinAo Concrete Group (Xin Ao) and therefore Xin Ao is considered to be a VIE of China- ACM.

Xin Ao is engaged in the business of consulting, concrete mixing and equipment rental services. Xin Ao had five wholly owned subsidiaries in the PRC: (1) Beijing Heng Yuan Zheng Ke Technical Consulting Co., Ltd, (2) Beijing Hong Sheng An Construction Materials Co., Ltd, (3) Beijing Heng Tai Hong Sheng Construction Materials Co., Ltd, (4) Da Tong Ao Hang Wei Ye Machinery, Equipment Rental Co., Ltd, and (5) Luan Xian Heng Xin Technology Co., Ltd. Since their establishment, none of these five entities had any operations and the Company did not plan to pursue operations for these entities. As of June 30, 2017, all five subsidiaries were dissolved.

On August 1, 2013, CADC Delaware consummated a reincorporation merger with its newly formed wholly-owned subsidiary, China Advanced Construction Materials Group, Inc. (China ACM), a Nevada corporation, with CADC Delaware merging into China ACM and China ACM being the surviving company, for the purpose of changing CADC Delaware's state of incorporation from Delaware to Nevada.

China ACM, BVI-ACM, China-ACMH and Xin Ao are collectively referred to as the Company.

Note 2 Summary of significant accounting policies

Liquidity

In assessing the Company's liquidity, the Company monitors and analyzes its cash on-hand and its operating and capital expenditure commitments. The Company's liquidity needs are to meet its working capital requirements, operating expenses and capital expenditure obligations.

The Company engages in the production of advanced construction materials for large scale infrastructure, commercial and residential developments. The Company's business is capital intensive and the Company is highly leveraged. Debt financing in the form of short term bank loans, loans from related parties and bank acceptance notes have been utilized to finance the working capital requirements and the capital expenditures of the Company. Due to recurring losses, the Company's working capital was approximately \$7.5 million as of June 30, 2017, as compared to \$16.4 million as of June 30, 2016. As of June 30, 2017, the Company had cash on-hand of approximately \$0.2 million and restricted cash balances of approximately \$4.2 million, with remaining current assets mainly composed of accounts receivables and prepayments and advances.

Although the Company believes that it can realize its current assets in the normal course of business, the Company's ability to repay its current obligations will depend on the future realization of its current assets. Management has considered its historical experience, the economic environment, trends in the construction industry, the expected collectability of its accounts receivable and other receivables and the realization of the prepayments on inventory, and provided for an allowance for doubtful accounts as of June 30, 2017. The Company expects to realize the balance of

its current assets net of the allowance for doubtful accounts within the normal operating cycle of a twelve month period. If the Company is unable to realize its current assets within the normal operating cycle of a twelve month period, the Company may have to consider supplementing its available sources of funds through the following:

Financial support and credit guarantee commitments from the Company's majority shareholders (See Note 7 - Related party transactions).

F-6

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Other available sources of financing from PRC banks and other financial institutions, given the Company's credit history.

Based on the above considerations, the Company's management is of the opinion that it has sufficient funds to meet the Company's working capital requirements and debt obligations as they become due. However, there is no assurance that management will be successful in their plans. There are a number of factors that could potentially arise that could undermine the Company's plans, such as changes in the demand for the Company's products, economic conditions, competitive pricing in the concrete-mix industry, the Company's operating results continuing to deteriorate, or the inability of the Company's bank and shareholders to provide continued financial support.

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). These financial statements include the accounts of all the directly and indirectly owned subsidiaries and VIEs listed below. All material intercompany transactions and balances have been eliminated in consolidation.

Principles of consolidation

The consolidated financial statements reflect the activities of the following subsidiaries and VIEs. All material intercompany transactions have been eliminated.

<u>Subsidiaries and VIEs</u>	<u>Place incorporated</u>	<u>Ownership percentage</u>
BVI-ACM	British Virgin Island	100%
China-ACMH	Beijing, China	100%
Xin Ao	Beijing, China	VIE
Heng Yuan Zheng Ke ³	Beijing, China	VIE
Hong Sheng An ²	Beijing, China	VIE
Heng Tai ⁴	Beijing, China	VIE
Da Tong ¹	Datong, China	VIE
Heng Xin ²	Luanxian, China	VIE

¹ Dissolved in August 2016

² Dissolved in December 2016

³ Dissolved in January 2017

⁴ Dissolved in February 2017

VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIEs. The primary beneficiary is required to consolidate the VIEs for financial reporting purposes.

Management makes ongoing assessments of whether China ACM is the primary beneficiary of Xin Ao. Based upon a series of contractual arrangements, the Company determined that Xin Ao is a VIE subject to consolidation and that China ACM is the primary beneficiary. Accordingly, the accounts of Xin Ao are consolidated with those of China ACM.

The carrying amount of the VIE s assets and liabilities are as follows:

	June 30, 2017	June 30, 2016
Current assets	\$ 76,607,089	\$ 90,518,451
Property, plants and equipment	3,644,203	4,709,794
Total assets	80,251,292	95,228,245
Liabilities	(66,612,148)	(72,579,677)
Intercompany payables*	(7,088,094)	(7,355,650)
Total liabilities	(73,700,242)	(79,935,327)
Net assets	\$ 6,551,050	\$ 15,292,918

F-7

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

* Payables to China-ACMH and BVI-ACM have been eliminated upon consolidation.

Use of estimates and assumptions

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. The significant estimates and assumptions made in the preparation of the Company's consolidated financial statements include allowance for doubtful accounts, deferred income taxes, prepayments and advances, stock-based compensation, and fair value and useful lives of property, plant and equipment. Actual results could be materially different from those estimates.

Foreign currency translation

The reporting currency of the Company is the U.S. dollar. The functional currency of China ACM and BVI-ACM is the U.S. dollar. China-ACMH and Xin Ao use their local currency Chinese Renminbi (RMB) as their functional currency. In accordance with the US GAAP guidance on Foreign Currency Translation, the Company's results of operations and cash flows are translated at the average exchange rates during the period, assets and liabilities are translated at the exchange rates at the balance sheet dates, and equity is translated at historical exchange rates. As a result, amounts related to assets and liabilities reported on the consolidated statements of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheets.

Asset and liability accounts at June 30, 2017 and 2016, were translated at RMB 6.78 and RMB 6.64 to \$1.00, respectively. The average translation rates applied to the consolidated statements of operations and comprehensive loss and cash flows for the years ended June 30, 2017 and 2016 were RMB 6.81 and RMB 6.43 to \$1.00, respectively.

Translation gains (losses) that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations. There were no foreign currency transaction gains or losses for each of the years ended June 30, 2017 and 2016. The effects of foreign currency translation adjustments are included in shareholders' equity as a component of accumulated other comprehensive income.

Revenue recognition

Revenue is realized or realizable and earned when four criteria are met:

Persuasive evidence of an arrangement exists (the Company considers its sales contracts to be pervasive evidence of an arrangement);

Delivery has occurred;

The seller's price to the buyer is fixed or determinable; and

Collectability of payment is reasonably assured.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Company sells its concrete products primarily to major local construction companies. Sales agreements are signed with each customer. The agreements list all terms and conditions with the exception of delivery date and quantity, which are evidenced separately in purchase orders. The purchase price of products is fixed in the agreement and customers are not permitted to renegotiate after the contracts have been signed. The agreements include a cancellation clause if the Company or customers breach the contract terms specified in the agreement.

The Company recognizes revenue when title and ownership of the goods are transferred upon shipment to the customer by the Company and collectability of payment is reasonably assured.

The Company includes the shipping and handling fee in both revenue and cost of revenue.

Financial instruments

US GAAP, regarding fair value of financial instruments and related fair value measurements define fair value, establish a three-level valuation hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The three levels of inputs are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument;

Level 3 inputs to the valuation methodology are unobservable.

Financial instruments included in current assets and current liabilities are reported in the consolidated balance sheets at face value or cost, which approximate fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rates of interest.

Cash and cash equivalents

The Company considers all highly liquid investments with the original maturity of three months or less at the date of purchase to be cash equivalents. The Company currently maintains substantially all of its day-to-day operating cash balances with major financial institutions within the PRC and the United States. As of June 30, 2017 and 2016, the Company had deposits in excess of federally insured limits totaling approximately \$0.2 million and \$0.9 million, respectively, in the PRC.

Restricted cash

As of June 30, 2017 and 2016, restricted cash consisted of collateral representing cash deposits for bank guarantees and notes payable.

Accounts receivable

The Company extends unsecured credit to its customers in the normal course of business. Accounts are considered past due after 30 days. In establishing the required allowance for doubtful accounts, management considers historical experience, the economic environment, trends in the construction industry and the expected collectability of the overdue receivables. Management reviews its accounts receivable each reporting period to determine if the allowance for doubtful accounts is adequate. An estimate for doubtful accounts is recorded when collection of the full amount is no longer probable. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovering is considered remote. The Company provides a provision of 15% of the allowance for doubtful accounts for accounts receivable balance that are past due more than 180 days but less than one year, 40% of the allowance for doubtful accounts for accounts receivable past due from one to two years, 75% of the allowance for doubtful accounts for accounts receivable past due beyond two years, 100% of the allowance for doubtful accounts for accounts receivable past due beyond three years, plus additional amounts as necessary when the Company's collection department determines the collection of the full amount is remote and the Company's management approves 100% of the allowance for doubtful accounts. The Company's management has continued to evaluate the reasonableness of the valuation allowance policy and will update it if necessary.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Inventories

Inventories consist of raw materials and are stated at the lower of cost or market, as determined using the weighted average cost method. Management compares the cost of inventories with the market value and an allowance is made for writing down the inventory to its market value, if lower than cost. As of June 30, 2017 and 2016, the Company determined that no reserves for obsolescence were necessary.

Other receivables

Other receivables primarily include prepayments to be refunded by our suppliers if the supplies do not meet the Company's specification needs, advances to employees, amounts due from unrelated entities, VAT tax refunds and other deposits. Management regularly reviews the aging of receivables and changes in payment trends and records allowances when management believes collection of amounts due are at risk. Accounts considered uncollectible are written off against allowances after exhaustive efforts at collection are made. The Company provides a provision of 5% of the allowance for doubtful accounts for other receivables balance that are aged within one year, 50% of the allowance for doubtful accounts for other receivables aged from one to two years, and 100% of the allowance for doubtful accounts for other receivables aged beyond two years.

Prepayments and advances

Prepayments are funds deposited or advanced to outside vendors for future inventory purchases. As is standard practice in the PRC, many of the Company's vendors require a certain amount to be deposited with them as a guarantee that the Company will complete its purchases on a timely basis. This amount is refundable and bears no interest. The Company has legally binding contracts with its vendors, which require any outstanding prepayments to be returned to the Company when such contracts end.

The Company wrote off \$0.2 million and \$0 on unrealizable prepayments for the years ended June 30, 2017 and 2016, respectively.

Property, plant and equipment

Property, plant and equipment are stated at cost. Expenditures for maintenance and repairs are charged to operations as incurred while additions, renewals and improvements are capitalized. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method with a 5% residual value. Leasehold improvements are amortized over the lesser of estimated useful lives or lease terms, as appropriate.

The estimated useful lives of assets are as follows:

	Useful life
Transportation equipment	7-10 years
Plants and machinery	10 years
Office equipment	5 years
Buildings and improvements	3-20 years

Accounting for long-lived assets

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Company classifies its long-lived assets into: (i) machinery and equipment; (ii) transportation equipment; (iii) office and equipment; and (iv) buildings and improvements.

Long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be fully recoverable. It is possible that these assets could become impaired as a result of technological or other industry changes. If circumstances require a long-lived asset or asset group to be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

If the value of an asset is determined to be impaired, the impairment to be recognized is measured in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less disposition costs.

Due to recurring losses, the deterioration of the concrete-mix industry in Beijing, PRC, and competitive pricing pressures, the Company has performed an impairment analysis and determined its long-lived assets were impaired during the year ended June 30, 2016. As a result, the Company recorded an impairment charge of \$2.6 million for the year ended June 30, 2016. These charges were related to the impairment of the Company's transportation equipment, plants and machinery. The loss was determined using Level 3 inputs. There were no impairment charges for the year ended June 30, 2017.

Competitive pricing pressures and changes in interest rates could materially and adversely affect the Company's estimates of future net cash flows to be generated by the long-lived assets, and thus could result in future impairment losses.

Stock-based compensation

The Company records stock-based compensation expense at fair value on the grant date and recognizes the expense over the employee's requisite service period. The Company's expected volatility assumption is based on the historical volatility of Company's stock. The expected life assumption is primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield is based on the Company's current and expected dividend policy.

Income taxes

The Company accounts for income taxes in accordance with ASC 740, Income Taxes, which requires the Company to use the assets and liability method of accounting for income taxes. Under the assets and liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between financial statement carrying amounts and the tax bases of existing assets and liabilities and operating loss and tax credit carry forwards. Under this accounting standard, the effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion, or all of, a deferred tax asset will not be realized.

ASC 740-10, Accounting for Uncertainty in Income Taxes, defines uncertainty in income taxes and the evaluation of a tax position as a two-step process. The first step is to determine whether it is more likely than not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50 percent likelihood of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred. United States federal, state and local income tax returns prior to 2014 are not subject to examination by any applicable tax authorities. PRC tax returns filed in 2017 and prior years are subject to examination by any applicable tax authorities.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Value Added Tax

Enterprises or individuals who sell commodities, engage in repair and maintenance, or import and export goods in the PRC are subject to a value added tax. The standard VAT rate for the Company's industry is 3% of gross sales, and revenues are presented net of VAT.

Research and development

Research and development costs are expensed as incurred. The cost of materials and equipment that are acquired or constructed for research and development activities, and have alternative future uses, either in research and development, marketing, or sales, are classified as property and equipment, and depreciated over their estimated useful lives.

Earnings (loss) per share

The Company reports earnings (losses) per share in accordance with the US GAAP, which requires presentation of basic and diluted earnings (losses) per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings (losses) per share excludes dilution and is computed by dividing income (loss) available to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts, such as warrants, options, restricted stock based grants and convertible preferred stock, to issue common stock were exercised and converted into common stock. Common stock equivalents having an anti-dilutive effect on earnings per share are excluded from the calculation of diluted earnings per share.

Stock dividends or stock splits are to be accounted for retroactively if the stock dividends or stock splits occur during the period, or retroactively if the stock dividends or stock splits occur after the end of the period but before the release of the financial statements, by considering it outstanding of the entirety of each period presented.

Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

Comprehensive income (loss)

Comprehensive income (loss) consists of net income (loss) and foreign currency translation adjustments.

Recent Accounting Pronouncements

In March 2016, the FASB issued Accounting Standards Update (ASU) No., 2016-09, Compensation-Stock Options (Topic 718): Improvements to Employee Share-Based Payment Accounting. The areas for simplification in this amendment include the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of

the amendments in the same period. Management plans to adopt this ASU during the quarter ending September 2017. Management does not believe the adoption of this ASU would have a material effect on the Company's consolidated financial statements.

F-12

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide guidance on the following eight specific cash flow issues: (1) Debt Prepayment or Debt Extinguishment Costs; (2) Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing; (3) Contingent Consideration Payments Made after a Business Combination; (4) Proceeds from the Settlement of Insurance Claims; (5) Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned; (6) Life Insurance Policies; (7) Distributions Received from Equity Method Investees; (8) Beneficial Interests in Securitization Transactions; and Separately Identifiable Cash Flows and Application of the Predominance Principle. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The amendments should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. Management plans to adopt this ASU during the quarter ending September 2018. Management does not believe the adoption of this ASU would have a material effect on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-17, Consolidation (Topic 810): Interests held through related parties that are under common control. The amendments in this ASU require that the reporting entity, in determining whether it satisfies the second characteristic of a primary beneficiary, to include all of its direct variable interests in a VIE and, on a proportionate basis, its indirect variable interests in a VIE held through related parties, including related parties that are under common control with the reporting entity. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. Management plans to adopt this ASU during the quarter ending September 2017. Management does not believe the adoption of this ASU would have a material effect on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows: Restricted Cash". The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendment is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Management plans to adopt this ASU during the quarter ending September 2018. Management believes that the adoption of this ASU on the Company's statement of cash flows will increase cash and cash equivalents by the amount of the restricted cash on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the definition of a business. The amendments in this ASU is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Management plans to adopt this ASU early after during the quarter ending September 2017. The Company does not believe the adoption of this ASU would have a material effect on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Scope of Modification Accounting, which amends the scope of modification accounting for share-based payment arrangements and provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. For all entities, this ASU is effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. Management plans to adopt this ASU during the quarter ending September 2018. The adoption of this ASU would not have a material effect on the Company's consolidated financial statements.

F-13

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In July 2017, the FASB Issued ASU 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815). The amendments in Part I of the Update change the reclassification analysis of certain equity-lined financial instruments (or embedded features) with down round features. The amendments in Part II of this Update re-characterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments in Part I of this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in Part II of this Update do not require any transition guidance because those amendments do not have an accounting effect. Management plans to adopt this ASU during the quarter ending September 2019. The Company does not believe the adoption of this ASU would have a material effect on the Company's consolidated financial statements.

The Company does not believe other recently issued but not yet effective accounting standards, if currently adopted, would have a material effect on the Company's consolidated financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications have no effect on the accompanying consolidated financial statements.

Note 3 Accounts receivable, net

Accounts receivable, net consisted of the following:

	June 30, 2017	June 30, 2016
Accounts receivable	\$ 63,370,426	\$ 51,812,683
Less: Allowance for doubtful accounts	(15,827,349)	(11,524,131)
Total accounts receivable, net	\$ 47,543,077	\$ 40,288,552

Movement of allowance for doubtful accounts is as follows:

	Year ended June 30, 2017	Year ended June 30, 2016
Beginning balance	\$ 11,524,131	\$ 28,209,249
Provision for doubtful accounts	3,987,890	2,591,465
Less: write-off	-	(17,482,713)
Exchange rate effect	315,328	(1,793,870)
Ending balance	\$ 15,827,349	\$ 11,524,131

During the years ended June 30, 2017 and 2016, the Company offset approximately \$1.5 and \$2.1 million of accounts receivable and accounts payable pursuant to certain three-party settlement agreements, respectively.

Note 4 Other receivables, netOther receivables

Other receivables consisted of the following:

F-14

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	June 30, 2017	June 30, 2016
Other receivables	\$ 1,653,351	\$ 7,742,057
Other receivable from sale of Asset Group	18,867	1,685,645
Less: Allowance for doubtful accounts	(1,432,095)	(2,334,672)
Total other receivables, net	\$ 240,123	\$ 7,093,030

Movement of allowance for doubtful accounts is as follows:

	Year ended June 30, 2017	Year ended June 30, 2016
Beginning balance	\$ 2,334,672	\$ 2,403,362
Provision for (recovery of) doubtful accounts	(852,275)	129,212
Less: write-off	-	-
Exchange rate effect	(50,302)	(197,902)
Ending balance	\$ 1,432,095	\$ 2,334,672

Other receivables from the sale of the Asset Group

On February 29, 2016, the Company terminated an operating lease for its concrete plant in the eastern suburban area of Beijing because the plant was not operating at ideal capacity and the Company did not anticipate it would in the foreseeable future. The Company entered into an agreement with the lessor to terminate its operating lease, which was originally effective from August 18, 2013 to August 17, 2021, and for the sale of certain of the Company's assets and liabilities (the Asset Group) at the leased location. Under the agreement, the carrying value of the Asset Group was determined to be RMB 13.7 million (approximately \$2.1 million), and was settled for RMB 11.2 million (approximately \$1.7 million). The Company recognized approximately \$0.4 million loss from the sale of the Asset Group for the year ended June 30, 2016. As of June 30, 2017, the Company had received approximately \$1.7 million, with an \$18,867 balance outstanding to be paid by the lessor.

In accordance with ASC 205, the Company did not report the sale of the Asset Group as discontinued operations as the sale of the Asset Group did not represent a strategic shift that had a major effect on the Company's operations and financial results.

Note 5 Property, plants and equipment, net

Property, plants and equipment consist of the following:

	June 30, 2017	June 30, 2016
Machinery and equipment	\$ 896,326	\$ 754,997
Transportation equipment	4,249,609	4,299,862
Office equipment	1,168,846	1,172,059
Buildings and improvements	308,636	314,909
Total	6,623,417	6,541,827
Less: Accumulated depreciation and amortization	(2,979,214)	(1,832,033)
Plants and equipment, net	\$ 3,644,203	4,709,794

F-15

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 amounted to approximately \$1.2 million and \$2.0 million, respectively.

Note 6 Credit FacilitiesShort term loans - banks:

Outstanding balances on short-term bank loans consisted of the following:

	June 30, 2017	June 30, 2016
Loans from China Construction Bank, each with an interest rate of 4.35% per annum, due between September 2017 and March 2018, guaranteed by Beijing Jinshengding Mineral Products Co., LTD, Mr. Xianfu Han, Ms. Chunying Wang, Mr. Weili He and Ms. Junkun Chen.	17,700,720	12,404,320
Loan from Bank of Beijing, with an interest rate of 5.66% per annum, due March 2017, guaranteed by Beijing Jinshengding Mineral Products Co., LTD, Mr. Xianfu Han, Ms. Chunying Wang, Mr. Weili He, and Ms. Junkun Chen.	-	4,515,120
	\$ 17,700,720	\$ 16,555,440

Beijing Jinshengding Mineral Products Co., LTD is a supplier to the Company. Mr. Xianfu Han is the Company's Chief Executive Officer. Chunying Wang is the spouse of Mr. Xianfu Han. Mr. Weili He is the Company's Interim Chief Financial Officer. Ms. Junkun Chen is the spouse of Mr. Weili He. Also see Note 7 Related party transactions.

Interest expense was approximately \$0.8 million for each of the years ended June 30, 2017 and 2016.

In September, 2017, the Company obtained two short term bank loans totaling \$5,206,962.

Notes payable:

The Company has an approximately \$31 million (RMB210,000,000) credit facility from China Construction Bank (the CCB Credit Facility), which was extended in August 2017 through August 2018. Bank notes are issued under the CCB Credit Facility for inventory purchases. The notes payable are guaranteed by Beijing Jinshengding Mineral Products Co., LTD., Xianfu Han and his spouse, Chunying Wang, and Weili He and his spouse, Junkun Chen, and amounted to approximately \$14.0 million and \$13.2 million as of June 30, 2017 and 2016, respectively, and were non-interest bearing with expiration dates between July 2017 and December 2017. The notes are generally charged with a transaction fee of 0.1% of the notes amount. The restricted cash for the notes was approximately \$4.2 million and \$4.1 million as of June 30, 2017 and 2016, respectively. The Company's availability under the CCB Credit Facility was \$17 million as of June 30, 2017. In September 2017, the Company repaid \$8,112,830 of notes payable.

As of June 30, 2016, the Company had notes payable to the Bank of Beijing of approximately \$4.9 million, which was repaid during the year ended June 30, 2017.

Note 7 Related party transactions

Prepayments - related party

Mr. Xianfu Han, and Mr. Weili He, the Company's shareholders and officers, are holding positions as president and director of Ningbo Lianlv Investment Ltd., respectively. This company owns 99% shares of Beijing Lianlv Technical Group Ltd. (Beijing Lianlv), the Company's supplier. As of June 30, 2017 and 2016, the Company prepaid \$6,996,400 and \$1,136,546 to Beijing Lianlv for inventory purchases, respectively.

F-16

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Other payables – shareholders

Two shareholders have advanced funds to BVI-ACM for working capital purposes. The advances are non-interest bearing, unsecured, and are payable in cash on demand. These two shareholders are also officers of the Company. They and their spouses have also guaranteed certain short-term loans payable and notes payable of the Company (see Note 6). The other payables-shareholders balance also includes the Company's salary payables to the two shareholders.

Other payables - shareholders consisted of the following:

	June 30, 2017	June 30, 2016
Xianfu Han	\$ 1,070,535	\$ 715,086
Weili He	1,191,231	776,039
	\$ 2,261,766	\$ 1,491,125

As of June 30, 2017, the balance of other payables-shareholders includes \$1,800,000 salary payable-shareholders and \$461,766 loans payable-shareholders. As of June 30, 2016, the balance of other payables-shareholders includes \$1,200,000 salary payable-shareholders and \$291,125 loans payable-shareholders.

Note 8 Income taxes**(a) Corporate income tax**

China ACM is organized in the United States. China ACM had no taxable income for United States income tax purposes for the years ended June 30, 2017 and 2016, respectively. China ACM's net operating loss for the year ended June 30, 2017, amounted to approximately \$0.3 million. As of June 30, 2017, China ACM's net operating loss carry forward for United States income taxes was approximately \$0.7 million. The net operating loss carry forward are available to reduce future years' taxable income through year 2037. Management believes that the realization of the benefits from these losses appears uncertain due to the Company's operating history and continued losses in the United States. Accordingly, the Company has provided a 100% valuation allowance on the deferred tax asset to reduce the asset to zero. Management reviews this valuation allowance periodically and makes changes accordingly.

BVI-ACM is incorporated in the British Virgin Islands (BVI), where its income tax rate is 0% under current BVI law.

China-ACMH and VIE-Chinese operations

China-ACMH and Xin Ao are governed by the income tax laws of the PRC. Income tax provisions with respect to operations in the PRC are calculated at the applicable tax rates on the taxable income for the periods based on existing legislation, interpretations and practices in respect thereof. Under the Chinese Enterprise Income Tax (EIT) law, the statutory corporate income tax rate applicable to most companies is 25%. In 2009, Xin Ao applied and received an Enterprise High-Tech Certificate. The High-Tech Certificate was required to be renewed every 3 years. The certificate was awarded based on Xin Ao's involvement in producing high-tech products, its research and development, as well as its technical services. As granted by the State Administration of Taxation of the PRC, Xin Ao is entitled to a reduction in its income tax rate from 25% to 15% until 2018.

The EIT Law imposes a 10% withholding income tax, subject to reduction based on tax treaties where applicable, for dividends distributed by a foreign invested enterprise to its immediate holding company outside China. Such dividends were exempted from PRC tax under the previous income tax law and regulations. The Company intends to permanently reinvest undistributed earnings of its Chinese operations located in the PRC. As a result, there is no

deferred tax expense related to withholding tax on the future repatriation of these earnings.

Loss before provision for income taxes consisted of:

F-17

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

There were no uncertain tax positions as of June 30, 2017 and 2016. Management does not anticipate any potential future adjustments which would result in a material change to its tax positions. For the years ended June 30, 2017 and 2016, the Company did not incur any tax related interest or penalties.

Note 9 Shareholders equity**Restricted Stock Grants**

Restricted stock grants are measured based on the market price on the grant date. The Company has granted restricted shares of common stock to the members of the board of directors (the Board), senior management and consultants.

Effective August 20, 2016, the Board granted an aggregate of 106,859 shares of restricted common stock, which were issued with a fair value of \$308,823 to a consultant under the 2009 Plan. These shares shall vest in two tranches upon achieving certain performance-based milestones. As of June 30, 2017, these shares have not vested and the performance-based milestones have not been determined by the Board.

Effective August 20, 2016, the Board granted an aggregate of 100,000 shares of restricted common stock, which were issued with a fair value of \$289,000 to two employees under the 2009 Plan. These shares vested immediately upon grant.

For the years ended June 30, 2017 and 2016, the Company recognized approximately \$0.3 million and \$0.5 million, respectively, of compensation expense related to restricted stock grants.

Following is a summary of the restricted stock grants:

Restricted stock grants	Shares	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Unvested as of June 30, 2016	-	\$ -	\$ -
Granted	206,859	\$ 2.89	\$ 597,823
Vested	(100,000)	\$ 2.89	\$ 289,000
Unvested as of June 30, 2017	106,859	\$ 2.89	\$ 308,823

Note 10 Earnings (loss) per share

The following is a reconciliation of the basic and diluted earnings per share computation for the periods ended:

	Years ended June 30,	
	2017	2016
Net loss for loss per share	\$ (9,770,827)	\$ (15,806,014)
Weight average shares used in basic computation	2,266,826	2,180,799
Diluted effect of unvested restricted stock	-	-
Weight average shares used in diluted computation	2,266,826	2,180,799
Loss per share:		
Basic	\$ (4.31)	\$ (7.25)
Diluted	\$ (4.31)	\$ (7.25)

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2017 and 2016, all outstanding unvested restricted stock was included in the calculation of diluted earnings per share and diluted loss per share is the same as basic loss per share since the addition of any contingently issuable shares would be anti-dilutive.

Note 11 Reserves and dividends

The laws and regulations of the PRC require that before a foreign invested enterprise can legally distribute profits, it must first satisfy all its tax liabilities, provide for losses in previous years, and make allocations, in proportions determined at the discretion of the board of directors, after setting aside statutory reserves. Statutory reserves include the surplus reserve fund and the common welfare fund.

The Company is required to transfer 10% of its net income, as determined in accordance with the PRC accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reaches 50% of the Company's registered capital. As of June 30, 2016, the remaining reserve to fulfill the 50% registered capital requirement amounted to \$1.9 million. As of June 30, 2017, the remaining capital reserve amount was reduced to approximately \$0.8 million after the dissolution of Heng Yuan Zheng Ke, Hong Sheng An, Heng Tai, Da Tong, and Heng Xin.

Transfers to statutory reserves must be made before the distribution of any dividends to the Company's shareholders. The surplus reserve fund is non-distributable other than during liquidation. The surplus reserve fund can however be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

The PRC government restricts distributions of registered capital and the additional investment amounts required by foreign invested enterprises. Approval by the PRC government must be obtained before distributions of these amounts can be returned to the shareholders.

Note 12 Employee post-retirement benefits

The Company offers a defined contribution plan to eligible employees which consists of two parts: (i) the first part, paid by the Company, is 20% of the employee's compensation from the prior year and (ii) the second part, paid by the employee, is 8% of the employee's compensation. The Company's contributions of employment benefits were approximately \$0.7 million for each of the years ended June 30, 2017 and 2016.

Note 13 Commitments and contingencies

Lease Commitments

The Company has a lease agreement for a concrete service plant with an unrelated party which will expire on September 30, 2022, with annual payments of approximately \$414,000. The Company has a lease agreement for roadway access to the west side entry of the concrete service plant with an unrelated party, which will expire on June 30, 2019, with annual payment of approximately \$15,000. The Company has a lease agreement for office space from Mr. Weili He, the Company's Interim Chief Financial Officer, through October 31, 2018, with annual payments of approximately \$24,000.

Operating lease expenses are allocated between the cost of revenue and selling, general, and administrative expenses. Total operating lease expenses for the years ended June 30, 2017 and 2016 were approximately \$0.2 million and \$0.6 million, respectively. Future annual lease payments under non-cancelable operating leases with a term of one year or more consist of the following:

Twelve months ending June 30,	Amount
2018	\$ 399,000
2019	437,000
2020	414,000
2021	414,000
2022	414,000
thereafter	104,000
Total	\$ 2,182,000

F-20

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Legal Contingencies

From time to time, the Company is a party to various legal actions arising in the ordinary course of business. The Company accrues costs associated with these matters when they become probable and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. The Company's management does not expect any liability from the disposition of such claims and litigation individually or in the aggregate would have a material adverse impact on the Company's consolidated financial position, results of operations and cash flows.

Note 14 - Concentrations of risk

Credit risk

The Company is exposed to credit risk from its cash in bank and fixed deposits, and accounts and notes receivable, other receivables and advances on equipment purchases.

As of June 30, 2017 and 2016, \$4,433,444 and \$5,104,591 were deposited with a bank located in the PRC, respectively. These balances are not covered by insurance. While management believes that the credit risk on cash in bank and fixed deposits is limited because the counterparties are recognized financial institutions.

Accounts and notes receivable, other receivables and advances on inventory purchases are subjected to credit evaluations. An allowance has been made for estimated unrecoverable amounts which have been determined by reference to past default experience and the current economic environment.

Customer concentration risk

For the year ended June 30, 2017, the Company had one customer accounted for approximately 12.0% of total revenue. For the year ended June 30, 2016, no customer accounted for more than 10% of total revenue. As of June 30, 2017 and 2016, no customer accounted for more than 10% of the total balance of accounts receivable.

For the year ended June 30, 2017, the Company had one vendor representing approximately 19% of total purchases. For the year ended June 30, 2016, no vendor accounted for more than 10% of total purchases. As of June 30, 2017, no vendor accounted for more than 10% of the total balance of accounts payable. As of June 30, 2016, one vendor accounted for approximately 11% of total balance of accounts payable.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC.
SCHEDULE 1 - PARENT COMPANY BALANCE SHEETS
AS OF JUNE 30, 2017 AND 2016
(UNAUDITED)

ASSETS	2017	2016
CURRENT ASSETS:		
Cash	\$ 456	\$ 456
Total current assets	456	456
OTHER ASSETS:		
Prepayments and advances	-	-
Intercompany receivable	17,192,991	17,192,991
Investment in subsidiaries	-	5,134,283
Total other assets	17,192,991	22,327,274
Total assets	\$ 17,193,447	\$ 22,327,730
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Other payables - shareholders	\$ 1,800,000	\$ 1,200,000
Total current liabilities	1,800,000	1,200,000
OTHER LIABILITIES:		
Loss in excess of investment in subsidiaries	4,241,525	-
Total other liabilities	4,241,525	-
Total liabilities	\$ 6,041,525	\$ 1,200,000
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock \$0.001 par value, 1,000,000 shares authorized, no share issued or outstanding	-	-
Common stock, \$0.001 par value, 74,000,000 shares authorized, 2,387,658 and 2,180,799 shares issued and outstanding as of June 30, 2017 and 2016, respectively	2,388	2,181
Additional paid-in-capital	38,662,377	38,373,584
Accumulated deficit	(40,975,658)	(31,204,831)
Statutory reserves	6,248,092	6,248,357
Accumulated other comprehensive income	7,214,723	7,708,439
Total shareholders' equity	11,151,922	21,127,730
Total liabilities and shareholders' equity	\$ 17,193,447	\$ 22,327,730

The accompanying notes are an integral part of Schedule 1.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC.
 SCHEDULE 1 - PARENT COMPANY STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
 FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
 (UNAUDITED)

	2017	2016
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	\$ (889,000)	\$ (1,098,604)
LOSS FROM OPERATIONS	(889,000)	(1,098,604)
EQUITY LOSS OF SUBSIDIARIES	(8,881,827)	(14,707,410)
NET LOSS	(9,770,827)	(15,806,014)
OTHER COMPREHENSIVE LOSS -		
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	(493,716)	(2,766,786)
COMPREHENSIVE LOSS	\$ (10,264,543)	\$ (18,572,800)

The accompanying notes are an integral part of Schedule 1.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC.
SCHEDULE 1 - PARENT COMPANY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(UNAUDITED)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (9,770,827)	\$ (15,806,014)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Stock-based compensation expense	289,000	498,604
Loss from subsidiaries	8,881,827	14,707,410
Changes in operating assets and liabilities:		
Other payables - shareholders	600,000	600,000
Net cash provided by (used in) operating activities	-	-
EFFECTS OF EXCHANGE RATE CHANGE IN CASH		
	-	-
NET CHANGE IN CASH		
	-	-
CASH, beginning of year	456	456
CASH, end of year	\$ 456	\$ 456

The accompanying notes are an integral part of Schedule 1.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC.

UNAUDITED CONDENSED NOTES TO SCHEDULE 1

1. Basis of presentation

Certain information and footnote disclosures normally included in financial statements prepared in conformity with generally accepted accounting principles have been condensed or omitted. The Company's investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries.

2. Restricted net assets

Schedule I of Article 5-04 of Regulation S-X requires the condensed financial information of registrant shall be filed when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. For purposes of the above test, restricted net assets of consolidated subsidiaries shall mean that amount of the registrant's proportionate share of net assets of consolidated subsidiaries (after intercompany eliminations) which as of the end of the most recent fiscal year may not be transferred to the parent company by subsidiaries in the form of loans, advances or cash dividends without the consent of a third party (i.e., lender, regulatory agency, foreign government, etc.).

The condensed parent company financial statements have been prepared in accordance with Rule 12-04, Schedule I of Regulation S-X as the restricted net assets of the subsidiaries of China Advanced Construction Materials Group, Inc. exceed 25% of the consolidated net assets of China Advanced Construction Materials Group, Inc. The ability of our Chinese operating affiliates to pay dividends may be restricted due to the foreign exchange control policies and availability of cash balances of the Chinese operating subsidiaries. Because a significant portion of our operations and revenues are conducted and generated in China, a significant portion of our revenues being earned and currency received are denominated in Renminbi (RMB). RMB is subject to the exchange control regulation in China, and, as a result, we may be unable to distribute any dividends outside of China due to PRC exchange control regulations that restrict our ability to convert RMB into US Dollars.

3. Shareholders equity

Restricted Stock Grants

Restricted stock grants are measured based on the market price on the grant date. The Company has granted restricted shares of common stock to the members of the board of directors (the Board), senior management and consultants.

On August 20, 2016, the Company granted a total of 106,859 shares of the Company's restricted stock at \$2.89 per share under the 2009 Equity Incentive Plan to a consultant as compensation for the consulting service to be provided. The shares are to vest in two tranches upon achieving certain milestones. As of June 30, 2017, these shares have not vested and the performance-based milestones have not been determined by the Board.

On August 20, 2016, the Company granted a total of 100,000 shares of the Company's restricted stock at \$2.89 per share under the 2009 Equity Incentive Plan to two employees as compensation. The shares vested immediately upon the grant.

For the years ended June 30, 2017 and 2016, the Company recognized \$0.3 million and \$0.5 million of compensation expenses related to restricted stock grants, respectively.

Following is a summary of the restricted stock grants:

Restricted stock grants	Shares	Weighted Average Grant Date	Aggregate Intrinsic Value

			Fair Value Per Share		
Unvested as of June 30, 2016	-	\$	-	\$	-
Granted	206,859	\$	2.89	\$	597,823
Vested	(100,000)	\$	2.89	\$	289,000
Unvested as of June 30, 2017	106,859	\$	2.89	\$	308,823

F-25

SIGNATURES

Pursuant to the requirement of Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC.

By: /s/ Xianfu Han

Date: September 28, 2017

Xianfu Han
Chief Executive Officer
(principal executive officer)

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Xianfu Han</u> Xianfu Han	Chief Executive Officer and Chairman of the Board (principal executive officer)	September 28, 2017
<u>/s/Weili He</u> Weili He	Vice Chairman, Chief Operating Officer and Interim Chief Financial Officer (interim principal financial officer and principal accounting officer)	September 28, 2017
<u>/s/Tao Jin</u> Tao Jin	Director	September 28, 2017
<u>/s/Xinyong Gao</u> Xinyong Gao	Director	September 28, 2017
<u>/s/Ken Ren</u> Ken Ren	Director	September 28, 2017